Supreme Court, U.S.
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No. ____ OFFICE OF THE CLERK

In The

Supreme Court of the United States

October Term, 1994

DRUG EMPORIUM, INC.,

Petitioner,

vs.

PARFUMS GIVENCHY, INC.,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Is the "first sale doctrine" in § 109(a) of the Copyright Act a defense to an action for infringement under § 602(a) of the Act, when genuine goods with a copyrighted package design were imported into this country after the copyright owner sold them abroad?

2. Do retailers who sell goods imported into this country by others violate the prohibition against unauthorized "importation" in § 602(a) of the Copyright Act?

LIST OF PARTIES TO THE PROCEEDING AND RULE 29.1 STATEMENT

The parties to the proceedings below were petitioner Drug Emporium, Inc., and respondent Parfums Givenchy, Inc.[1]

Petitioner Drug Emporium, Inc., has no parent company or subsidiary (except wholly-owned subsidiaries).

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[1] Several *amici curiae* filed briefs in the court of appeals below. The Coalition for Competitive Imports and Costco Wholesale Corporation filed separate briefs in support of petitioner Drug Emporium, Inc. The Coalition to Preserve the Integrity of American Trademarks, the National Consumers League, and the Food & Allied Service Trades Department, AFL-CIO, jointly filed a brief in support of respondent Parfums Givenchy, Inc.

TABLE OF CONTENTS

	Page
Questions Presented	i
List of Parties to the Proceeding and Rule 29.1 Statement	ii
Table of Authorities	v
Opinions Below	1
Jurisdiction	2
Statutory Provisions Involved	2
Statement of the Case	2
Reasons for Granting the Writ	7
I. A Ripe Conflict Exists Between The Third And Ninth Circuits Concerning The Relation Between §§ 602(a) And 109(a)	7
A. The Nature of the Conflict	7
B. The Conflict in Rationales	8
C. This Court Should Not Wait to Resolve the Conflict	13
II. The Relationship Between §§ 109(a) And 602(a) Involves An Important Question Of Federal Law With Broad Commercial And Policy Implications	15
A. The Impact on Commerce and New Litigation	15
B. The Impact on Policies Inherent in the First Sale Doctrine	16
C. The Impact on Gray-Market Principles and National Competition Law	19

TABLE OF CONTENTS – Continued

Page

III. Holding Non-Importing Retailers Liable For "Importation" Infringement Under § 602(a) Also Involves An Important Question Of Federal Law 22

Conclusion 24

Appendix

The Opinion in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994) ....App. 1

The Findings of Fact and Conclusions of Law in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, Case No. 92-4206-MRP (C.D. Cal.) .....App. 19

The Judgment in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, Case No. 92-4206-MRP (C.D. Cal.) .....App. 24

Statutory Provisions Involved

17 U.S.C. § 106.....App. 26

17 U.S.C. § 109(a) .....App. 26

17 U.S.C. § 501(b) .....App. 27

17 U.S.C. § 602(a) .....App. 27

The Opinion in *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991).....App. 29

The Opinion in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988).....App. 36

Partial Transcript of Proceedings in *Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, Case No. CV-92-7455-MRP (C.D. Cal.) .....App. 52

Reproduction of the Copyrighted Package Design of Amarige Perfume.....App. 53

TABLE OF AUTHORITIES

Page

CASES

Adam v. Burks, 84 U.S. (17 Wall.) 453, 21 L.Ed. 700 (1873) 17

BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991), *cert. den.*, ___ U.S. ___, 112 S.Ct. 2297, 12 L.Ed.2d 873 (1992) ..... *passim*

Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 28 S.Ct. 722, 52 L.Ed. 1086 (1908) 16

Calvin Klein Cosmetics Corp. v. Lenox Lab., Inc., 815 F.2d 500 (8th Cir. 1987) 21

Champion Spark Plug Co. v. Sanders, 331 U.S. 125, 67 S.Ct. 1136, 91 L.Ed. 1386 (1947) 18

City of Lafayette v. Louisiana Power & Light Co., 435 U.S. 389, 398 S.Ct. 1123, 55 L.Ed.2d 364 (1978) 20

Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc., 569 F. Supp. 47 (E.D.Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984) 10

Costello Pub. Co. v. Rotelle, 670 F.2d 1035 (D.C. Cir. 1981) 22

Curtiss Aeroplane & M. Corp. v. United Aircraft E. Corp., 266 F. 71 (2d Cir. 1920) 18

Deepsouth Packing Co., Inc. v. Laitram Corp., 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972) 20

Doan v. American Book Co., 105 F. 772 (7th Cir. 1901) 16

Ferrero U.S.A., Inc. v. Ozak Trading, Inc., 952 F.2d 44 (3d Cir. 1991) 18, 19

Grocers Baking Co. v. Sigler, 132 F.2d 498 (6th Cir. 1942) 22

TABLE OF AUTHORITIES – Continued

Page

Harrison v. Maynard, M. & Co., 61 F. 689 (2d Cir. 1894) 16

Hensley Equip. Co. v. Esco Corp., 383 F.2d 252 (5th Cir. 1967) 17

Holiday v. Matheson, 24 F. 185 (S.D.N.Y. 1885) 18

Johnson & Johnson Prod. v. Dal Int'l Trading Co., 798 F.2d 100 (3d Cir. 1986) 23

K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 108 S.Ct. 1181, 100 L.Ed.2d 313 (1988) 19

Lasercomb Am. Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990) 21

Matrix Essentials, Inc. v. Emporium Drug Mart, Inc., 988 F.2d 587 (5th Cir. 1993) 19

NEC Electronics, Inc. v. Cal Circuit Abco, 810 F.2d 1506 (9th Cir. 1987), *cert. den.*, 481 U.S. 851, 108 S.Ct. 152, 98 L.Ed.2d 108 (1987) 6, 18, 21

Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc., Case No. CV-92-7455-MRP (C.D. Cal.) 15

Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477 (9th Cir. 1994) 1

Parfums Givenchy, Inc. v. Drug Emporium, Inc., Case No. 92-4206-MRP (C.D. Cal.) 4

Pinkham v. Sara Lee Corp., 983 F.2d 824 (8th Cir. 1992) 23

Platt & Munk v. Republic Graphics, 315 F.2d 847 (2nd Cir. 1963) 11

Prestonettes, Inc. v. Coty, 264 U.S. 359, 44 S.Ct. 350, 68 L.Ed. 731 (1924) 18

TABLE OF AUTHORITIES – Continued

Page

Sanofi, S.A. v. Med-Tech Veterinarian Products, Inc., 565 F. Supp. 931 (D.N.J. 1983) 18

Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093 (3d Cir. 1988) ..... *passim*

Seiko v. Refac Technology, 9 U.S.P.Q.2d 1046 (S.D.N.Y. 1988) 18

Shakespeare Co. v. Silstar Corp. of America, 9 F.3d 1091 (4th Cir. 1993) 20

Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984) 11, 17, 22, 23

Stabilisierungsfonds Fur Wein v. Kaiser, 647 F.2d 200 (D.C. Cir. 1981) 22

Stowe v. Thomas, 2 Amer. Law Rep. (O.S.) 210 (E.D. Pa. 1853) 16

Two Pesos, Inc. v. Taco Cabana, Inc., ___ U.S. ___, 112 S.Ct. 2753, 120 L.Ed.2d 615 (1992) 20

United States v. Atherton, 561 F.2d 747 (9th Cir. 1977) 11

United States v. Paramount Pictures, Inc., 334 U.S. 131, 68 S.Ct. 915, 92 L.Ed. 1260 (1948) 21

United States v. Univis Lens Co., Inc., 316 U.S. 241 62 S.Ct. 1088, 86 L.Ed. 1408 (1942) 17

STATUTES

17 U.S.C. § 106 ..... 2, 4, 9

17 U.S.C. § 109(a) ..... *passim*

TABLE OF AUTHORITIES – Continued

Page

17 U.S.C. § 501(b) 2, 4

17 U.S.C. § 602(a) ..... *passim*

19 U.S.C. § 1526(a) 19

28 U.S.C. § 1254(1) 2

28 U.S.C. § 1331 4

28 U.S.C. § 1338 4

28 U.S.C. § 1400(a) 23

28 U.S.C. § 2101(c) 2

OTHER AUTHORITIES

H.R. Rep. 1476, 94th Cong. 2d Sess. 17

H.R. Rep. 2222, 60th Cong. 2d Sess. (1909) 16

H.R. Rep. No. 735, 101st Cong. 2d Sess. 17

U.C.C. § 2-102 23

U.C.C. § 2-403 23

U.S. Supreme Court Rule 13.4 2

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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.,* is reported at 38 F.3d 477 and is reprinted in the appendix at App. 1-18. The findings of fact and conclusions of law of the United States District Court for the Central District of California are reported at 1993 Copr.L.Dec. p. 27,116 and are reprinted in the appendix at App. 19-23. The judgment of the district court is unpublished, and is reprinted in the appendix at App. 24-25.

JURISDICTION

This petition seeks review of a judgment of the United States Court of Appeals for the Ninth Circuit entered on October 21, 1994. On November 4, 1994, petitioner Drug Emporium, Inc., filed a suggestion for rehearing en banc, which the court of appeals treated as both a petition for rehearing and a suggestion for rehearing en banc. On January 12, 1995, the court of appeals denied the petition for rehearing and rejected the suggestion for rehearing en banc. This petition is filed within 90 days of the entry of judgment, pursuant to 28 U.S.C. § 2101(c) and U.S. Supreme Court Rule 13.4.

The jurisdiction of this Court to review the judgment of the court of appeals is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Sections 106, 109(a), 501(b), and 602(a) of the Copyright Act, 17 U.S.C. §§ 106, 109(a), 501(b), and 602(a), are reprinted in the appendix at App. 26-28.

STATEMENT OF THE CASE

1. This case concerns the relationship between two provisions of the Copyright Act. Section 109(a) codifies the "first sale doctrine" – the common law principle that a copyright owner may not control the disposition of a particular copy after he or she sells it. The first sale doctrine allows the purchaser of the copy, "without the

authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a). However, § 602(a) provides that the importation of copies, "without authority of the owner of copyright," is an infringement of the owner's right to distribute copies. 17 U.S.C. § 602(a).

The issue here is whether Congress, by enacting this statutory scheme, intended to prohibit the copyright owner's competitors from importing and selling copyrighted goods which the copyright owner (or its affiliate) previously sold abroad. A second question is whether § 602(a), in prohibiting unauthorized "importation", subjects retailers to liability for copyright infringement when they have not imported but simply resold goods imported by others.

2. "Amarige" perfume is produced in France by Parfums Givenchy, S.A. ("Givenchy France"). The perfume itself is not copyrightable. However, Givenchy France copyrighted a graphic design that decorates the boxes in which individual bottles of Amarige are sold.[2]

The perfume at issue in this case was sold in Europe by Givenchy France, which owned the U.S. copyright in the graphic design when the sale occurred. Third parties purchased the perfume abroad and imported it into the United States. Givenchy France, which still owned the U.S. copyright at the time, did not authorize the importation. Shortly afterwards, Givenchy France assigned the

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[2] A reproduction of the Amarige box appears in the appendix at App. 53.

copyright to respondent Parfums Givenchy, Inc. ("Givenchy USA"), its wholly owned U.S. subsidiary. Givenchy USA then became the "owner of copyright" within the meaning of §§ 106 and 602(a).

Petitioner Drug Emporium, Inc. ("Drug Emporium") operates a chain of discount drug stores throughout the United States. It bought the Amarige perfume at issue from a third-party wholesaler in the United States. Then it sold the perfume in the original boxes bearing the copyrighted graphic design. Unlike the importation of the perfume, these sales occurred after Givenchy USA acquired the copyright.

3. Givenchy USA sued Drug Emporium in the United States District Court for the Central District of California,[3] alleging a single count of copyright infringement under 17 U.S.C. § 602(a). Drug Emporium's principal defense was that its sales of Amarige were protected by the first sale doctrine in 17 U.S.C. § 109(a). Drug Emporium also claimed that Givenchy USA lacked standing to sue because, at the time of importation, Givenchy USA was neither a copyright owner nor an "owner of an exclusive right under a copyright" as required by 17 U.S.C. § 501 (b).

The district court entered summary judgment in favor of Givenchy USA. After holding that Givenchy USA had standing to sue, the court held that Drug Emporium had violated § 602(a), and that its conduct was not

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[3] *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, Case No. 92-4206-MRP. The complaint alleged jurisdiction under 28 U.S.C. §§ 1331 and 1338.

"excused" by § 109(a). App. 23. In support of this holding the court relied on *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. den.*, ___ U.S. ___, 112 S.Ct. 2297, 120 L.Ed.2d 873 (1992).[4] In *BMG Music*, the Ninth Circuit held that the first sale doctrine does not provide a defense to infringement under § 602(a) for copyrighted goods manufactured and sold abroad.

On appeal, the Ninth Circuit first ruled that Givenchy USA had standing to sue because it was the U.S. copyright owner when Drug Emporium made its retail sales (though not the copyright owner at the time of importation). The court stated that § 602(a) was violated "when Drug Emporium *attempted to distribute* the perfume that had been imported without Givenchy USA's (or Givenchy France's) authorization." App. 5 (emphasis in text).

Second, the court of appeals ruled that the first sale doctrine cannot be a defense to an action under § 602(a) if the copyrighted article was first sold outside the United States. The court acknowledged that the relationship between the first sale doctrine in § 109(a) and the importation provision of § 602(a) is not clear:

> There are at least two plausible interpretations of the interaction of the importation right and the first sale doctrine as embodied in §§ 602(a) and 109(a).

App. 7. In deciding as it did, the court considered itself bound by the earlier Ninth Circuit panel decision in *BMG*

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[4] The opinion in *BMG Music v. Perez* is reprinted in the appendix at App. 29-35.

Music, supra. It announced, however, a new rationale to support its decision: that § 602(a) was intended to ensure

> that a U.S. copyright owner will gain the full value of each copy sold in the United States, by preventing the unauthorized importation of copies sold abroad from being used as a means of circumventing the copyright owner's distribution rights in the United States.

App. 8. It refused to distinguish between a first sale made by the copyright owner itself and one made, as in *BMG Music*, by a licensee: "the relationship between the copyright holder and the seller abroad is irrelevant." App. 12, n.9.

Finally, the court of appeals rejected arguments that any conflict between §§ 109(a) and 602(a) should be resolved by resort to decisions interpreting the Tariff Act and the Lanham Trademark Act. Those decisions refused to infer an intent by Congress to protect trademark owners from gray-market competition[5] when the trademark owner itself (or its affiliate) first sold trademarked goods abroad. *See, e.g., NEC Electronics, Inc. v. Cal Circuit Abco*, 810 F.2d 1506, 1511 (9th Cir. 1987), *cert. den.*, 481 U.S. 851, 108 S.Ct. 152, 98 L.Ed.2d 108 (1987). The court found those decisions inapposite because "the Copyright Act has a purpose, scope and statutory scheme different

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[5] "Gray-market" goods, or "parallel imports," are genuine products possessing a brand name protected by a trademark or copyright. They are typically manufactured abroad, and purchased and imported into the United States by third parties, thereby bypassing the authorized U.S. distribution channels. *See* App. 7, n.6.

from either the Tariff or Lanham Trademark Acts." App. 14.

REASONS FOR GRANTING THE WRIT

I. A Ripe Conflict Exists Between The Third And Ninth Circuits Concerning The Relation Between §§ 602(a) And 109(a).

A. The Nature of the Conflict

The decision below places the Ninth Circuit in conflict with the only other circuit court that has considered the relation between §§ 109(a) and 602(a). In *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988),[6] an American manufacturer sold consumer products bearing copyrighted labels to a South African company, which shipped the products back to the United States for resale. The district court held the South African company liable under § 602(a), and the Third Circuit reversed. The appellate court held that "a first sale by the copyright owner extinguishes any right later to control importation of those copies," and that "the place of sale is not the critical factor in determining whether section 602(a) governs." App. 49.

Sebastian was decided on the explicit basis that the first sale occurred outside the United States. The plaintiff copyright owner in *Sebastian* argued that "Sec. 602(a) prohibits importation into the United States . . . if as here . . . the 'first sale' of the products does not occur in

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[6] The opinion in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.* is reprinted in the appendix at App. 36-51.

the United States."[7] App. 49, n.2. The Third Circuit rejected that argument and held the first sale doctrine of § 109(a) applied even though the first sale did "not occur in the United States."

In sum, *Sebastian* holds that a first sale abroad by the copyright owner establishes a defense under § 109(a) to an action under § 602(a). The Ninth Circuit's decision in this case holds squarely the opposite. The court ruled that (1) "sales *abroad* do not constitute a defense to copyright infringement under § 602(a)," and (2) "the relationship between the copyright holder and the seller abroad is irrelevant." App. 12, n.9 (emphasis in text). Thus, in the Ninth Circuit but not the Third, "the importation right [granted by § 602(a)] survives . . . unless and until there has been a 'first sale' *in the United States.*" App. 8 (emphasis in text).

B. The Conflict in Rationales

The two circuits also disagree about the nature and purpose of § 602(a). The Ninth Circuit views § 602(a) as creating an "importation right" separate and distinct from the right of distribution conferred by § 106(3) of the Copyright Act. The purpose of the importation right is to ensure that a U.S. copyright owner realizes the "full value" of every copy sold in this country, even those it previously sold abroad at a profit. The Third Circuit, by contrast, holds that § 602(a) merely defines a particular

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[7] The *BMG Music* court overlooked this fact, and erroneously concluded that *Sebastian* involved goods "originally manufactured and sold in the United States." App. 32, n.3.

infringement of the § 106(3) right of distribution, and is not designed to maximize the copyright owner's profit.

1. The Third Circuit in *Sebastian* considered the role of § 602(a) in the statutory scheme of the Copyright Act. It noted that § 602(a) "creates an infringement of the exclusive right of distribution when copies acquired outside the United States are imported into this country without the copyright owner's permission." App. 44. Section 602(a) only refers to infringement of "the exclusive right to distribute copies . . . under section 106." 17 U.S.C. § 602(a). The court identified two possible interpretations of § 602(a):

> The first, and most sweeping, construction declares that in addition to the distribution rights conferred by section 106(3), section 602(a) grants copyright owners yet another distinct right – one that frees them from the first sale right of section 109(a), which otherwise limits section 106(3), and allows them to prevent the unauthorized importation of copyrighted copies. . . .
>
> The second interpretation reconciles sections 106(3) and 602(a) by reasoning that the importation prohibition does not enlarge the distribution rights, but serves only as a specific example of those rights subject still to the first sale limitation. . . . Although the domestic copyright holder undoubtedly would prefer to block such importation, the statutory language does not expressly authorize such control.

App. 45-46. The *Sebastian* court concluded that because § 602(a) merely defines a particular application of the distribution right granted by § 106(3), it is limited by

§ 109(a) which, by its terms, applies "notwithstanding the provisions of section 106(3)." 17 U.S.C. § 109(a); *see also* 17 U.S.C. § 106 (rights granted by § 106 are "[s]ubject to sections 107 through 120"). The court therefore adopted the second, more restrictive interpretation: "a first sale by the copyright owner extinguishes any right later to control importation of those copies." App. 49.

The Ninth Circuit in this case agreed that there "are at least two plausible interpretations of the interaction" between §§ 602(a) and 109(a). App. 7. However, unlike the Third Circuit, it chose the first, more sweeping construction: "sales *abroad* of foreign manufactured United States copyrighted materials do not terminate the United States copyright holder's exclusive distribution rights in the United States under §§ 106 and 602(a)." App. 10, n.8 (emphasis in text).

2. The *Sebastian* court also addressed the purpose of § 602(a). It found that the statute was designed to protect U.S. copyright owners from goods made and sold abroad by foreign licensees. "The hearings revealed the copyright owners' desire to prevent importation . . . of copies made by licensees in foreign countries." App. 44. After reviewing district court decisions that applied § 602(a) to goods made under license, App. 46-48, the court of appeals emphasized how the case before it differed from situations where goods were made abroad by an unrelated licensee: "Sebastian produced and sold the same copies which it now seeks to control."[8] App. 48.

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[8] *But see Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without*

By contrast, the Ninth Circuit found no "dichotomy between sales by the copyright holder itself and by its licensees." App. 12, n.9. In support of this finding, however, the Ninth Circuit cited two cases decided under the 1909 Copyright Act.[9] Section 602(a) was adopted in the 1976 Copyright Act.

3. The *Sebastian* court considered the role of economic reward in the Copyright Act generally:

> [Copyright] monopoly privileges are "neither unlimited nor primarily designed to provide a special private benefit." . . .
>
> . . . Ultimately, the copyright law regards financial reward to the owner as a secondary consideration.

App. 40 (*quoting Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 782, 78 L.Ed.2d 574 (1984)). The "secondary" importance of reward to the copyright owner is reflected in the first sale doctrine. The applicability of the doctrine turns on whether " 'there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use.' " App. 43-44 (citation omitted). The doctrine prevents the copyright owner from realizing an even greater reward by

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opinion, 738 F.2d 424 (3d Cir. 1984) (first sale by unrelated foreign licensee not a defense in action under § 602(a)).

[9] These cases under the 1909 Act were *United States v. Atherton*, 561 F.2d 747 (9th Cir. 1977), and *Platt & Munk v. Republic Graphics*, 315 F.2d 847 (2nd Cir. 1963).

controlling the disposition of copies after the first authorized sale. The Third Circuit found these same considerations to apply in an action under § 602(a):

> With respect to future distribution of those copies in this country [after importation], clearly the copyright owner [Sebastian] has received its reward through the purchase price.
>
> Nothing in the wording of section 109(a), its history or philosophy, suggest that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner should receive "a more adequate award" than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

App. 49.

In contrast, the Ninth Circuit below viewed maximization of reward as the central purpose of § 602(a). It reasoned that § 602(a) "ensures that a U.S. copyright owner will gain the full value of each copy sold in the United States, by preventing the unauthorized importation of copies sold abroad from being used as a means of circumventing the copyright owner's distribution rights in the United States." App. 8. That is precisely the reasoning rejected in *Sebastian*.

C. This Court Should Not Wait to Resolve the Conflict.

1. This case presents an appropriate factual context in which to resolve the conflict concerning the relationship between §§ 109(a) and 602(a). The case was decided in the district court by summary judgment. The undisputed facts are similar in all relevant respects to those in *Sebastian*. In both cases, the goods were both manufactured and first sold by the U.S. owner of copyright. In both cases, the first sale occurred abroad.[10] Both cases involved goods which themselves were not copyrighted, but which simply had a copyrighted design on the package or label.

One factual difference in *Sebastian* – that the goods in that case were manufactured in the U.S. and then exported before the first sale overseas – was noted by the Ninth Circuit, which "declined to speculate about how we would decide the facts in *Sebastian*." App. 9, n.7.[11] This factual difference, however, was not material to the reasoning below. The court of appeals said its "rationale [from *BMG Music*] . . . is that sales *abroad* do not constitute a defense to copyright infringement under § 602(a)."

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[10] This point was totally missed by the Ninth Circuit panel that decided *BMG Music*, which erroneously concluded that *Sebastian* involved goods "originally manufactured and sold in the United States. App. 32, n.3.

[11] Similarly, the *Sebastian* court declined to consider the case in which "the copies were produced abroad and the sales occurred overseas." App. 48.

App. 12, n.9 (emphasis in original). The place of manufacture is irrelevant to this rationale.[12]

2. Future appellate decisions are not likely to shed further light on the relationship between sections 109(a) and 602(a). Both the Third and the Ninth Circuits identified the same problem concerning that relationship. The Ninth Circuit stated in this case, "There are at least two plausible interpretations of the interaction of the importation right and the first sale doctrine as embodied in §§ 602(a) and 109(a)." App. 7. The Third Circuit stated in *Sebastian*, "The interrelationship between sections 602(a) and 109(a) may be interpreted in two possible ways. . . . " App. 45. Future cases will not find anything different.

This problem involves a fundamental area of federal law, the Copyright Act, which potentially affects many forms of commerce – from computer software to any consumer product (like the perfume here) that could have its label design copyrighted. Because § 602(a) concerns "importation," the issue affects an important sector of international trade. The conflict between this case and *Sebastian* is not trivial, or one for which any risks of a premature resolution by this Court will outweigh the costs of delay.

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[12] The court below explicitly endorsed *BMG Music*'s holding that "§ 109(a) grant[s] first sale protection only to copies legally *made and sold* in the United States." App. 32 (emphasis supplied). Under that holding, § 109(a) would not apply in this case even if the Amarige had been *manufactured* in the United States, because it was not *sold* in the United States.

II. The Relationship Between §§ 109(a) And 602(a) Involves An Important Question Of Federal Law With Broad Commercial And Policy Implications.

A. The Impact on Commerce and New Litigation

The Ninth Circuit's ruling below has been widely reported. The decision "to uphold this use of copyright could set off an avalanche of suits, threatening discount retailers that rely on importers for their bargains." *New York Times*, Nov. 25, 1994, at B11. "The rules for battling the multibillion-dollar gray market for imported cosmetics, electronics and jewelry have become more black and white, suggested several intellectual property attorneys who believe they have received a potent new litigation strategy courtesy of a Ninth Circuit decision upholding copyright protection for a perfume package." *N.Y.L.J.*, Dec. 1, 1994, at 5.

These implications are not exaggerated. By the simple expedient of preparing a label or package design and copyrighting it, any foreign producer of any consumer product can control all U.S. competition in its product in the United States – particularly price competition. Producers have not overlooked that strategy. Even as early as a year ago, the district judge who presided over this case noted that as a result of her decision "there have been countless cases filed here in the district." *Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, Case No. CV-92-7455-MRP (C.D. Cal.) (transcript Dec. 6, 1993 at 13, reprinted at App. 52.)

As the court of appeals below acknowledged, "serious policy considerations weigh on both sides of this debate, because of implications for the so-called 'gray

market' of imported goods." App. 7, n.6. An exceptional amount of commerce has been affected.[13]

B. The Impact on Policies Inherent in the First Sale Doctrine

The Ninth Circuit's decision to limit the applicability of § 109(a) implicates important policies inherent in the first sale doctrine. The doctrine "finds its origins in the common law aversion to limiting the alienation of personal property." *Sebastian*, App. 43. Even before the first sale doctrine was codified in 1909, our copyright laws were construed as not allowing "the restriction upon the subsequent alienation of [a copyrighted article] after the [copyright] owner had parted with the title to one who had acquired full dominion over it . . . " *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350, 28 S.Ct. 722, 726, 52 L.Ed. 1086 (1908).[14]

When codifying the doctrine in the 1909 Copyright Act, and then reenacting it as § 109(a) of the 1976 Copyright Act, Congress purported simply to restate existing law.[15] In amending the Copyright Act in 1990, Congress reaffirmed the integrity of the doctrine:

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[13] In its *amicus* brief filed in the appeals court below, the Coalition for Competitive Imports estimated the retail value of gray-market goods to exceed $130 *billion* annually.

[14] *See Stowe v. Thomas*, 2 Amer. Law Rep. (O.S.) 210, 213 (E.D. Pa. 1853) ("[A]uthor or his assignee disposes . . . to each purchaser . . . the absolute control and disposal of the material copy or copies purchased."); *Harrison v. Maynard, M. & Co.*, 61 F. 689, 691 (2d Cir. 1894); *Doan v. American Book Co.*, 105 F. 772, 776 (7th Cir. 1901).

[15] H.R. Rep. 2222, 60th Cong. 2d Sess. 28-29 (1909) ("Section 41 is not intended to change in any way existing law. . . . [I]t

> The first sale doctrine represents an important balancing of interests. The doctrine prohibits copyright owners from controlling the terms and conditions of further distribution of lawfully made copies of a work once the initial authorized distribution of those copies has taken place. . . . *Congress has, in the past, resisted proposals to alter the balance achieved in section 109, requiring those seeking amendments to make a compelling case for change.*

H.R. Rep. No. 735, 101st Cong. 2d Sess. 7, *reprinted in* 1990 U.S. Code Cong. & Ad. News at 6938. (emphasis added).

Patent law is relevant to interpreting copyright law "because of the historic kinship between patent law and copyright law." *Sony Corp.*, 464 U.S. at 439, 104 S.Ct. 787. Courts have long construed the patent laws to include a first sale doctrine, even though Congress has not codified it. *Adam v. Burks*, 84 U.S. (17 Wall.) 453, 456 (1873) (upon sale, a patented item "is open to the use of the purchaser without further restriction on account of the monopoly of the patentees"); *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 249, 62 S.Ct. 1088, 1093, 86 L.Ed. 1408 (1942); *Hensley Equip. Co. v. Esco Corp.*, 383 F.2d 252, 263 (5th Cir.

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would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale"); H.R. Rep. 1476, 94th Cong. 2d Sess. 79, *reprinted in* 1976 U.S. Code Cong. & Ad. News at 5693 ("Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy . . . , the person to whom the copy . . . is transferred is entitled to dispose of it by sale, rental, or any other means").

1967). Unlike the Ninth Circuit's new approach to the first sale doctrine in copyright cases under § 602(a), patent cases have long applied the doctrine when the first sale is made *abroad* by the patent owner itself or its affiliate.[16]

Courts similarly construe the trademark laws to include an uncodified first sale doctrine. *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368, 44 S.Ct. 350, 351, 68 L.Ed. 731 (1924); *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129, 67 S.Ct. 1136, 1138, 91 L.Ed. 1386 (1947); *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 952 F.2d 44, 49 (3d Cir. 1991). *NEC Electronics*, 810 F.2d at 1508-10.

The Ninth Circuit's new limitation on the first sale doctrine marks a departure from this jurisprudence and legislative policy, in a case where both it and the Third Circuit have acknowledged that there are "two plausible interpretations" as to whether the doctrine should apply. In these circumstances, such a departure ought not go unreviewed.

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[16] *Holiday v. Matheson*, 24 F. 185 (S.D.N.Y. 1885) (sale in England of patented item); *Curtiss Aeroplane & M. Corp. v. United Aircraft E. Corp.*, 266 F. 71, 78 (2d Cir. 1920) (sale in Canada gave "complete title and full right to use and sell [patented] article in any and every country"); *Seiko v. Refac Technology*, 9 U.S.P.Q.2d 1046, 1049 (S.D.N.Y. 1988) (first sale exhausts patent monopoly, "even if that sale takes place abroad"); *cf. Sanofi, S.A. v. Med-Tech Veterinarian Products, Inc.*, 565 F. Supp. 931 (D.N.J. 1983) (first sale abroad of patented article by patent owner precludes that owner from enjoining subsequent U.S. sales of that article, but does not so preclude his unrelated exclusive U.S. licensee).

C. The Impact on Gray-Market Principles and National Competition Law

1. The Ninth Circuit's decision creates a disparity in the treatment of gray-market competition under copyright and trademark law. It undermines decisions holding that gray-market competition does not constitute trademark infringement if the American trademark holder is owned or controlled by the foreign manufacturer of the trademarked goods. *See, e.g., Ferrero U.S.A., Inc.*, 952 F.2d at 49; *NEC Electronics*, 810 F.2d at 1510-11. *Cf. Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 593 (5th Cir. 1993) (resale of genuine trademarked goods previously sold in the United States by the trademark owner itself does not constitute trademark infringement). *See also K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 108 S.Ct. 1181, 100 L.Ed.2d 313 (1988), where this Court upheld a Customs Service regulation that excluded American trademark owners from the protection of 19 U.S.C. § 1526(a),[17] if the owner and the foreign manufacturer are subject to common ownership or control.

The appeals court below nullified the protection these decisions afford to gray-market competition. By placing a copyrighted design on the label next to the trademark, a copyright and trademark owner can prevent

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[17] 17 U.S.C. § 1526(a) forbids the importation of goods bearing a registered U.S. trademark owned by an American citizen or corporation, without the trademark owner's written consent.

competition in the United States in goods that the owner made and sold abroad.[18]

2. The gray-market decisions cited above present a broader policy issue: absent a clear Congressional command, should a statute be construed to restrict free-market principles and limit competition? Congress has established "competition as the fundamental principle governing commerce in this country." *City of Lafayette v. Louisiana Power & Light Co.*, 435 U.S. 389, 398, 98 S.Ct. 1123, 1129, 55 L.Ed.2d 364 (1978). This Court has invoked the policy favoring competition to limit claims under ambiguous provisions of the patent law: "[T]his Nation's historical antipathy to monopoly and . . . repeated congressional efforts to preserve and foster competition" are grounds not to "expand patent rights." *Deepsouth Packing Co., Inc., v. Laitram Corp.*, 406 U.S. 518, 530-31, 92 S.Ct. 1700, 1708, 32 L.Ed.2d 273 (1972).

Competition principles have also been used to construe trademark statutes. *See Two Pesos, Inc. v. Taco Cabana, Inc.*, ___ U.S. ___, 112 S. Ct. 2753, 120 L. Ed. 2d 615 (1992) (protection of trade dress under the Lanham Act is to be accomplished so that "competition will not be stifled" and "anticompetitive effects" avoided); *Shakespeare Co. v. Silstar Corp. of America*, 9 F.3d 1091, 1101 (4th Cir. 1993) (in trade dress claims under the Lanham Act, a "certain amount of purchaser confusion may even be tolerated in order to give the public the advantages of

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[18] The *Sebastian* court acknowledged that "[a]though this case turns purely on copyright law, . . . the underlying 'gray market,' or 'parallel importing,' issues really are dominant." App. 50.

free competition"); *Calvin Klein Cosmetics Corp. v. Lenox Lab., Inc.*, 815 F.2d 500, 504 (8th Cir. 1987) ("free competition must be weighed against any individual's property interest in [a] trademark, so that the analytic focus should also be on the consumer's ability to obtain the lowest priced goods."); *NEC Electronics*, 810 F.2d at 1511 (Lanham Trademark Act not designed "to offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply though the expedient of setting up a American subsidiary with nominal title to its mark").

This Court has also addressed the balance between the competition policies of antitrust law and the reach of the Copyright Act. *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158-59, 68 S.Ct. 915, 929-30, 92 L.Ed. 1260 (1948). "[C]opyright is . . . an exception to the general public policy against restraints of trade." *Lasercomb Am. Inc. v. Reynolds*, 911 F.2d 970, 977 (4th Cir. 1990) (competition invoked to limit claims of copyright infringement when the copyright is misused).

In this case the Ninth Circuit shifted the boundary between the monopolies conferred on owners of intellectual property and the domain of free-market competition. This change will affect the outcome of numerous future lawsuits, raise the retail prices of many consumer goods, and alter the business decisions of national retailers who carry imported goods with copyrighted labels or other features. The decision below presents an important federal question that requires a uniform, nationwide rule.

III. Holding Non-Importing Retailers Liable For "Importation" Infringement Under § 602(a) Also Involves An Important Question Of Federal Law.

A. The impact of the Ninth Circuit's decision is compounded by the court's second holding: that "importation" infringement under § 602(a) occurred when Drug Emporium, a non-importing retailer, attempted to sell perfume imported by others. *See* App. 5. "The Copyright Act protects copyright owners against both unauthorized importation *and* subsequent unauthorized distribution of copies of copyrighted materials" by non-importers. *Id.* at n.2 (emphasis in original).

The statutory language, however, is quite specific. It only makes the act of "importation" an infringement of distribution rights. 17 U.S.C. § 602(a). The plain meaning of the words is that only those who participate in some fashion in the act of "importation" face liability for infringement.

Under other trademark and copyright statutes, the lower courts have fashioned a rule making resellers of infringing merchandise (particularly counterfeit works and misappropriated marks) liable as infringers. *See Stabilisierungsfonds Fur Wein v. Kaiser*, 647 F.2d 200 (D.C. Cir. 1981) (retailer of wine bearing misappropriated trademark); *Costello Pub. Co. v. Rotelle*, 670 F.2d 1035, 1042-43 (D.C. Cir. 1981) (distributor of religious book with misappropriated copyrighted material); *Grocers Baking Co. v. Sigler*, 132 F.2d 498, 502 (6th Cir. 1942) (distributor of bread bearing infringing mark enjoined, but no damages sought). *Cf. Sony Corp*, 464 U.S. at 435 (noting possible

contributory "liability for copyright infringements on certain parties who have not themselves engaged in infringing activity"); *id.* at 437 (but in past cases, "the 'contributory' infringer was in a position to control the use of copyrighted works by others").

None of these decisions, however, arise under a statute that makes one specific act (*i.e.*, "importation") the sole act of infringement. It is at best debatable whether Congress, by prohibiting only "importation," intended to subject non-importing retailers nationwide to copyright infringement liability – and to the Copyright Act's "potent arsenal of remedies," *Sony Corp.*, 464 U.S. at 433 – for the mere act of selling in the ordinary course of business.

B. The decision below puts at risk every national retail chain (like Drug Emporium), as well as small merchants "who may be found" somewhere in the territory of the Ninth Circuit. 28 U.S.C. § 1400(a) (copyright venue). Such retailers may no longer rely on the good-faith purchaser defense when stocking imported goods. *See* U.C.C. §§ 2-102, 2-403. Normally, this defense "allows people safely to engage in the purchase and sale of goods without conducting a costly investigation of the conduct and rights of all previous predecessors in the chain of distribution." *Johnson & Johnson Prod. v. Dal Int'l Trading Co.*, 798 F.2d 100, 104 (3d Cir. 1986) (retailer not liable for selling imported gray-market goods that others fraudulently procured).

If retailers are now to be held liable, their innocence with respect to the circumstances of importation will likely be irrelevant. *Pinkham v. Sara Lee Corp.*, 983 F.2d

824, 829 (8th Cir. 1992) (liability for copyright infringement is "absolute. The defendant's intent is simply not relevant"). Retailers may have to inquire about the circumstances of importation, the identity of the importer, and perhaps the specific terms of the instrument conferring authority. Inevitably, the Ninth Circuit's rule will create costs for retailers and consumers, multiply lawsuits for copyright infringement against innocent merchants, and impede the free movement of imported goods with copyrighted labels or other features.

The liability of non-importing retailers under a statute that specifically prohibits only "importation" is an important federal question with serious legal and commercial ramifications. It, too, requires a uniform, nationwide rule.

CONCLUSION

For the foregoing reasons, this Court should grant the petition and issue a writ of certiorari to the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,

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APPENDIX

PARFUMS GIVENCHY, INC., *Plaintiff-Appellee,*
v.
DRUG EMPORIUM, INC., *Defendant-Appellant.*
Nos. 92-56359, 93-55050.
United States Court of Appeals,
Ninth Circuit.
Argued and Submitted Feb. 3, 1994.
Decided Oct. 21, 1994.

Perfume distributor brought action against retailer, alleging copyright infringement based on sales of perfume in original copyrighted packaging. The United States District Court for the Central District of California, Mariana R. Pfaelzer, J., granted summary judgment for distributor, and retailer appealed. The Court of Appeals, Pregerson, Circuit Judge, held that: (1) distributor had standing to bring infringement claim; (2) "first sale" doctrine, precluding liability for distribution of copies of work which has been lawfully sold, did not apply where alleged first sale occurred outside United States; and (3) fact that distributor was wholly owned subsidiary of foreign manufacturer did not affect copyright protection.

Affirmed.

John Borgo and R. Lawrence Bonner, Greer, Homer & Bonner, Miami, FL, for defendant-appellant.

Curtis A. Bradley, Covington & Burling, Washington, DC, for plaintiff-appellee.

Stephen Kurzman, Nixon, Hargrave, Devans & Doyle, Washington, DC, for American Free Trade Ass'n, as amicus curiae.

Diane Heiman, Bethesda, MD, for Nat. Consumers League, as amicus curiae.

Appeal from the United States District Court for the Central District of California.

Before: TANG, PREGERSON and NOONAN, Circuit Judges.

PREGERSON, Circuit Judge:

I. INTRODUCTION

Drug Emporium, Inc. appeals a permanent injunction granted by the district court on summary judgment in Parfums Givenchy, Inc.'s ("Givenchy USA's") action for copyright infringement under 17 U.S.C. § 602(a). Givenchy USA owns the United States copyright to the box design of Amarige perfume. Givenchy USA brought the instant action after its representatives purchased a bottle of Amarige perfume, in the original copyrighted packaging, from a discount retail store owned by Drug Emporium. The permanent injunction restrains Drug Emporium from continuing to sell or market the copyrighted Amarige box design in the United States. We have jurisdiction over the appeal under 28 U.S.C. § 1291. We affirm.

II. FACTS

The facts are not in dispute. This case concerns the importation and sale of Amarige, a perfume that is produced in France by Parfums Givenchy, S.A. ("Givenchy France"). Amarige is marketed in distinctively decorated individual boxes designed by employees of Givenchy

France. Givenchy France began importing Amarige to the United States in early 1992, and shortly thereafter sold its United States copyright interests in the Amarige box design to appellee, Givenchy USA, its wholly owned subsidiary. Givenchy USA then recorded the box design with the United States Copyright office, obtained a valid registration certificate, and began a multi-million dollar national advertising campaign to promote the perfume.

Meanwhile, third parties purchased or otherwise lawfully obtained quantities of Amarige abroad. The Amarige was packaged in the original distinctively designed box. The third parties then imported the Amarige into the United States without the authorization of either Givenchy France or Givenchy USA. Some or all of the Amarige was imported into the United States before Givenchy France assigned its U.S. copyright interests in the Amarige box design to Givenchy USA. Drug Emporium, a nationwide retail chain, purchased the Amarige from the importing third parties in the United States, and began marketing the perfume in the United States in its original copyrighted packaging. Drug Emporium made all of its purchases of Amarige *after* Givenchy USA became the registered U.S. copyright owner of the box design.

III. DISCUSSION

We review a grant of summary judgment de novo. *Smith v. Noonan*, 992 F.2d 987, 989 (9th Cir.1993). We must determine whether, viewing the evidence in the light most favorable to the non-moving party, there are any genuine issues of material fact, and whether the district

court correctly applied the relevant substantive law. *Botefur v. City of Eagle Point*, 7 F.3d 152, 154 (9th Cir.1993).

Drug Emporium raises two primary issues on appeal: (1) It challenges the district court's determination that Givenchy USA had standing to sue for the alleged copyright infringements; and (2) It challenges the district court's determination that the "first sale" doctrine does not apply to shield Drug Emporium from liability for copyright infringement.

A. Standing:

Section 501 ~~of~~ the Copyright Revision Act of 1976, Pub.L. 94-553, 17 U.S.C. §§ 101-914 (the "Copyright Act") provides that "[t]he legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement . . . committed *while he or she is the owner* of it." 17 U.S.C. § 501(b). The district court found that Givenchy USA had standing to sue under the Copyright Act because it owned the United States copyright to the box design when the infringement occurred.[1]

Drug Emporium contends that there is a genuine issue of fact whether Givenchy USA owned the copyright

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[1] The district court additionally found that Givenchy USA had standing to sue because it was the assignee of Givenchy France. Because we find that Givenchy USA had standing based on its ownership of the copyright at the time the violation occurred, we do not address the question whether it also had standing as an assignee of Givenchy France.

to the box design at the time of the alleged infringement. Drug Emporium points out that the third party wholesaler from whom it obtained its supply of Amarige purchased a large quantity of the product abroad *before* Givenchy France sold its U.S. copyright interest in Amarige to Givenchy USA. But Drug Emporium's alleged copyright infringement did not occur when the Amarige was *imported*. Rather, it occurred when Drug Emporium *attempted to distribute* the perfume that had been imported without Givenchy USA's (or Givenchy France's) authorization.[2]

It is undisputed that Givenchy USA was the United States copyright owner when Drug Emporium marketed and sold the Amarige in its copyrighted package. Therefore, Givenchy USA had standing to sue under the Copyright Act.

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[2] Drug Emporium argues in its reply brief that if the alleged infringement occurred when it *distributed* Amarige, rather than when the Amarige was *imported*, then the violations necessarily arose under § 106(3) (which protects distribution of copyrighted goods), rather than under § 602(a) (which protects importation of copyrighted goods). This distinction is irrelevant to the standing question. The Copyright Act protects copyright owners against both unauthorized importation *and* subsequent unauthorized distribution of copies of copyrighted materials. *See BMG Music v. Perez*, 952 F.2d 318, 320 (9th Cir.1991) (affirming district court holding that defendant infringed plaintiffs' copyright by importing *and selling* plaintiffs' copyrighted material manufactured abroad).

B. Does the "first sale" doctrine protect Drug Emporium?

1. Harmonizing first sale doctrine and importation right:

The owner of a registered copyright has the "exclusive rights" to *authorize or distribute* copies of the copyrighted work to the public. 17 U.S.C. § 106(3).[3] However, under the "first sale" doctrine, embodied in § 109(a) of the Copyright Act, 17 U.S.C. § 109(a), a sale of a "lawfully made" copy terminates the copyright holder's authority to interfere with subsequent sales or distribution of that particular copy.[4] Section 109(a) thus provides a defense to liability under § 106(3) for lawful purchasers of copies of copyrighted materials, so long as the copies were "lawfully made under this title." Drug Emporium contends on appeal that this section protects it from § 602 liability for copyright infringement.

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[3] 17 U.S.C. § 106 provides:
Subject to sections 107 through 120, the owner of [a] copyright under this title has the exclusive rights to do and to authorize any of the following:

* * *

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership or by rental, lease or lending.

[4] 17 U.S.C. § 109(a) entitled, "Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord," provides:
Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

Whether Drug Emporium may rely on the first sale doctrine depends on the relationship between this doctrine and the "importation right" codified at 17 U.S.C. § 602(a). Section 602(a) provides that unauthorized *importation of foreign* purchased copies of U.S. copyrighted materials is an infringement of the distribution rights provided in § 106.[5] There are at least two plausible interpretations of the interaction of the importation right and the first sale doctrine as embodied in §§ 602(a) and 109(a). Drug Emporium contends that § 109(a) supersedes § 602(a). In its view, a lawful sale *abroad* of U.S. copyrighted foreign goods would terminate the exclusive right of the U.S. copyright holder to import and distribute those goods in the United States, in the same way that a lawful domestic sale terminates the exclusive distribution rights of domestically manufactured materials. Thus, Drug Emporium argues, Givenchy USA may not interfere with the U.S. distribution of Amarige, lawfully obtained abroad, even though it owns the U.S. copyright to the Amarige box design, and even though the perfume was imported into the United States in the original box without Givenchy USA's authorization.[6] In contrast, Givenchy

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[5] 17 U.S.C. § 602(a) provides that:
Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106.

[6] The logical outcome of a ruling that the U.S. copyright owner is precluded from interfering with U.S. distribution of copies manufactured and lawfully sold abroad would be to deprive U.S. copyright holders of the power to authorize or prevent imports of the copies once the copies are sold abroad by

USA contends, and we agree, that the importation right survives as to a particular copy unless and until there has been a "first sale" *in the United States.*

Prior to the 1976 amendments to the Copyright Act, the unauthorized importation of non-pirated copyrighted articles was not prohibited. See Act of Mar. 4, 1909, ch. 320, § 30, 35 Stat. 1075, 1082 (1909). Section 602(a) was enacted in order to provide greater remedies for U.S. copyright owners, and "makes the mere act of importation – regardless of sale – an infringement of Section 106(3)'s distribution right, and prohibits unauthorized importation, not only of pirated copies, but also of copies that were lawfully made." *See Parfums Givenchy v. C & C Beauty Sales,* 832 F.Supp. 1378, 1390 (C.D.Cal.1993). As the district court in *C & C Beauty Sales* recognized, § 602(a) in effect gives § 106(3) an extraterritorial scope. *Id.* This section ensures that a U.S. copyright owner will gain the full value of each copy sold in the United States, by preventing the unauthorized importation of copies sold abroad from being used as a means of circumventing the copyright owner's distribution rights in the United States. *Id.* at 1390-91.

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the manufacturer. We acknowledge that serious policy considerations weigh on both sides of this debate, because of implications for the so-called "gray market" of imported goods. "Gray-market" goods, or "parallel imports," are genuine products possessing a brand name protected by a trademark or copyright. They are typically manufactured abroad, and purchased and imported into the United States by third parties, thereby bypassing the authorized U.S. distribution channels. *See K Mart v. Cartier,* 486 U.S. 281, 286-287, 108 S.Ct. 1811, 1815-1816, 100 L.Ed.2d 313 (1987).

We examined this precise issue in *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir.1991), *cert. denied*, ___ U.S. ___, 112 S.Ct. 2997, 120 L.Ed.2d 873 (1992). In that case the defendant was an entrepreneur who purchased copyrighted sound recordings manufactured abroad, imported them to the United States, and sold them here in retail outlets. The defendant in *BMG Music*, like Drug Emporium in this case, claimed that the first sale doctrine of § 109(a) protected him from liability even though he purchased the copyrighted recordings abroad and imported them without plaintiff copyright holder's authorization. We disagreed, holding that "[t]he words 'lawfully made under this title' in § 109(a) grant first sale protection only to copies legally made and sold in the United States." *Id.* at 319 (citing *CBS v. Scorpio Music Distributors*, 569 F.Supp. 47 (E.D.Pa.1983), *aff'd without op.*, 738 F.2d 424 (3rd Cir.1984)). We explained that such a rule is necessary to avoid rendering § 602 "virtually meaningless." *Id.* Without the rule, "[c]opyright owners would no longer have an exclusive right to distribute copies or phonorecords of works manufactured abroad, an interest clearly protected by § 602." *Id.* In essence, in *BMG Music* there was no first sale because the defendant purchased the copyrighted material *abroad*. Therefore, we concluded, the defendant importer did indeed infringe on the U.S. copyright when he imported and sold the phonorecords without the authorization of the U.S. copyright holder. *Id.*[7] The material facts of this case are nearly identical to those in *BMG Music*.

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[7] In *Sebastian Intern. v. Consumer Contacts (PTY)*, 847 F.2d 1093, 1098-99 (3rd Cir.1988), the Third Circuit held that the first sale doctrine of § 109(a) superseded the import right of § 602(a) where a domestic manufacturer first exported its materials and then attempted to invoke the copyright laws to enjoin a third

Drug Emporium amicus urges us to overrule *BMG Music*. It argues that the plain meaning, legislative history, interpretive case law, and policy considerations framing the statutes in question, all suggest that *BMG Music* was wrongly decided. Whether or not we agree with their arguments, *BMG Music* is binding authority in the 9th Circuit that can only be overturned through an en banc hearing. *U.S. v. Mandel*, 914 F.2d 1215, 1220-21 (9th Cir.1990); *see* 9th Cir.R. 35(1)-35(3) (providing procedures for en banc review).[8]

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party from importing the copyrighted goods. In *BMG Music* we explicitly declined to speculate about how we would decide the facts in *Sebastian*. We again decline to do so.

[8] We note, however, that the strongest argument against applying *BMG Music* is that some of its language, applied literally to circumstances not before us in *BMG Music*, would lead to absurd and unintended results. *BMG Music* need not be overturned to avoid those undesirable results.

In *BMG Music*, we stated: "The words 'lawfully made under this title' in § 109(a) grant first sale protection only to copies legally made and sold in the United States." 952 F.2d at 319. Amici and some courts have pointed out that this broad language, if taken literally, would render the first sale doctrine wholly inapplicable to foreign manufactured goods, even after the goods have been lawfully imported into the United States with the authorization of the U.S. copyright holder. *See, e.g., Parfums Givenchy v. C & C Beauty Sales*, 832 F.Supp. 1378, 1386 (C.D.Cal.1993) (citing 1 Paul Goldstein, Copyright § 5.6.1, at 604). This would mean that foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control over the distribution of the foreign manufactured copies even after the copies have been lawfully sold in the United States. We agree that such a result would be untenable, and that nothing in the legislative history or text of § 602 supports such an interpretation. *See* H.Rep. No. 94-1476, 94th Cong., 2nd Sess.

Alternatively, Drug Emporium asks us to distinguish *BMG Music*. The reply brief notes that Drug Emporium was not the importer of Amarige, as was the defendant in BMG Music; rather, Drug Emporium purchased its Amarige from a wholesaler here in the United States. *See* discussion *supra*, pp. ___-___, regarding standing. This is not a material distinction because the purchaser of illegally imported copies has no more authority to distribute copies than does the original importer. *See* H.R.Rep. No. 1476, at 79, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693 ("any resale of an illegally pirated phonorecord would be an infringement"). Drug Emporium therefore had no more authority to distribute the copyrighted Amarige box design than did the original importer. Nothing had happened to divest Givenchy USA of its "exclusive rights." 17 U.S.C. § 106 ("the owner of copyright . . . has the exclusive rights" to authorize distribution of copies).

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170 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5786 ("any unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them. . . . " (Emphasis added.)).

Our reliance on *BMG Music* today should not be read as an endorsement of any such broad extension of that case beyond its facts. Those facts did not include any attempt to preclude the sale of copies of foreign manufactured goods that had been lawfully obtained *in the U.S.* from the U.S. copyright holder. We merely follow *BMG Music* in holding that sales *abroad* of foreign manufactured United States copyrighted materials do not terminate the United States copyright holder's exclusive distribution rights in the United States under §§ 106 and 602(a).

2. Relevance of Givenchy USA's status as a subsidiary of Givenchy France:

In its better argument, Drug Emporium asks us to distinguish *BMG Music* because in the case before us the U.S. copyright owner, Givenchy USA, is the wholly owned subsidiary of the foreign manufacturer of Amarige, Givenchy France. There is nothing in the plain language of § 602, its legislative history, or case law that suggests that subsidiaries of foreign manufacturers should be treated any differently from other U.S. copyright holders.[9] Nevertheless, Drug Emporium asks us to

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[9] Amicus Coalition for Competitive Imports makes an intriguing, though ultimately futile, argument for the related proposition that case law distinguishes between a sale by the copyright owner *itself*, which is a defense against copyright infringement, and a sale by *licensees*, which might not be a defense. The Amicus argues that *BMG Music* may be distinguished from the case at bar on this ground.

Case law, though ambiguous, does not squarely hold that there is a dichotomy between sales by the copyright holder itself and by its licensees. *See United States v. Atherton*, 561 F.2d 747, 751 (9th Cir.1977) (rejecting any distinction between sales by owners and by licensees in the context of a criminal prosecution for copyright infringement). *But cf. Platt & Munk v. Republic Graphics*, 315 F.2d 847, 854 (2nd Cir.1963) (Friendly, J.) (some transfers of title of particular copies do not qualify as first sales; test for whether a first sale has occurred is whether the copyright holder has received a just reward for the use of the copyrighted article).

The second problem with the amicus argument is that it fails to distinguish between imports and domestic goods. The rationale of *BMG Music*, by which we are bound, is that sales *abroad* do not constitute a defense to copyright infringement under § 602(a). Under *BMG Music*, the relationship between the copyright holder and the seller abroad is irrelevant.

analogize from trademark cases interpreting § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, and §§ 32 and 43 of the Lanham Trademark Act, 15 U.S.C. §§ 1114 & 1125. As explained below, the cases cited by Drug Emporium hold that wholly owned U.S. subsidiaries of foreign manufacturers cannot invoke *tariff* or *trademark* protections to prevent third parties from importing goods manufactured by the parent company. *See, e.g., K Mart v. Cartier*, 486 U.S. 281, 294, 108 S.Ct. 1811, 1819, 100 L.Ed.2d 313 (1988) (wholly owned subsidiary of foreign manufacturer cannot invoke § 526 of the *Tariff Act* of 1930, 19 U.S.C. § 1526, to prevent third parties from competing in the domestic market by buying the foreign parent company's trademarked goods abroad and importing them here); *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir.) (wholly owned subsidiary of foreign manufacturer could not invoke §§ 32 and 43 of the *Lanham Trademark Act*, 15 U.S.C. §§ 1114 & 1125, to prevent third party from importing parent company's product), *cert denied*, 484 U.S. 851, 108 S.Ct. 152, 98 L.Ed.2d 108 (1987).

Finally, amicus attempts to buttress its argument by reference to the legislative history of the Computer Software Rental Amendments Act of 1990, Pub.L. 101-650 § 803, 104 Stat. 5089. *See* H.R.Rep. No. 101-735, 101st Cong., 2d Sess. 9, *reprinted in* 1990 U.S.C.C.A.N. 6935, 6940. But the provision cited by amicus, 17 U.S.C. § 109(e), is not relevant here. That provision was designed to overrule *Red Baron-Franklin Park v. Taito Corp.*, 883 F.2d 275 (4th Cir.1989), *cert. denied*, 493 U.S. 1058, 110 S.Ct. 869, 107 L.Ed.2d 952 (1990), which held that the first sale doctrine does not apply to the public performance right under § 106(4). Nothing suggests that Congress intended to comment on or change the scope of § 602(a) when it passed § 109(a).

The problem with Drug Emporium's suggested analogy is that the Copyright Act has a purpose, scope, and statutory scheme different from either the Tariff or Lanham Trademark Acts. As a result, as explained below, the reasoning of the cases cited by Drug Emporium is inapplicable to the sections of the Copyright Act at issue in the case before us.

a. The Tariff Act

Section 526(a) of the Tariff Act of 1930 prohibits the unauthorized importation of foreign-made merchandise bearing a registered trademark owned by a United States corporation. 19 U.S.C. § 1526(a).[10] In *K Mart*, the Supreme Court addressed the question whether a wholly owned United States subsidiary of a foreign manufacturer could invoke the protections of the § 526 of Tariff Act to prevent competition from third parties who imported the products manufactured by the parent company. The Supreme Court held that wholly owned subsidiaries could *not* invoke § 526 of the Tariff Act. There were two reasons for this determination, neither of which helps Drug Emporium.

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[10] Section 526(a) provides in relevant part:
[I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the [applicable] provisions unless written consent of the owner of such trademark is produced at the time of making entry.

First, the Court deferred to a U.S. Customs Service regulation that interpreted ambiguous statutory language that limited Tariff Act § 526's benefits to merchandise bearing a trademark "owned by" a United States citizen or company. This rationale does not help Drug Emporium because Copyright Act § 602 is not restricted by its terms to United States citizens or companies.

Second, the Court relied on the purpose of Tariff Act § 526, which is to protect domestic companies against foreign competition, *see K Mart*, 486 U.S. at 297, 108 S.Ct. at 1820-21 (Brennan J., concurring) (the structure of § 526 "bespeaks an intent, characteristic of the times, to protect only domestic interests"). To allow wholly owned subsidiaries of foreign companies to invoke § 526 would allow the foreign parent company to enjoy the competitive benefits that Congress intended to accrue only to domestic companies. The Tariff Act protections "are fragile barriers indeed if a foreign manufacturer might bypass them by the simple device of incorporating a shell domestic subsidiary and transferring to it a single asset – the United States trademark." *Id.* This second rationale is also inapplicable to the Copyright Act. The import restrictions of Copyright Act § 602 were intended to protect U.S. copyright holders from pirated articles as well as gray market copies,[11] not to give preferential treatment to domestic companies over foreign companies. *See* Copyright Act House Report, at 5785 ("Section 602 . . . deals with two separate situations: importation of 'piratical' articles . . . and unauthorized importation of copies . . . that were lawfully made"). In marked contrast to

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[11] *See* fn. 6, *supra* for a definition of gray market goods.

the Tariff import restrictions, which only protect domestic companies, the copyright laws are also available to protect foreign beneficial owners of U.S. copyrights, regardless of nationality. *See* 17 U.S.C. § 104(b) (foreign author may claim U.S. copyright if domiciliary or national of Berne Convention, Universal Copyright Convention ("U.C.C."), or other treaty nation, or if the work was first published in the U.S. or in a Berne, U.C.C. or other treaty nation); *see also* 5 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 5.05[D] (1993) (author who is a citizen or alien eligible to claim copyright may assign copyright to ineligible alien, who as assignee may fully enforce the copyright). In fact, as Givenchy USA points out, Givenchy France would have been eligible to assert U.S. copyright protection for the Amarige box design for *itself* had it not assigned its U.S. copyright interest to Givenchy USA. Givenchy France therefore had no need to resort to a "shell" United States subsidiary to enjoy United States copyright protection.

b. The Lanham Trademark Act

The purpose of the Lanham Trademark Act, Pub.L. 87-772, 15 U.S.C. §§ 1051-1127 (the "Lanham Act"), is to prevent consumer confusion or deception about the origin or make of a product. *NEC Electronics*, 810 F.2d at 1509. There is no statutory equivalent in the Lanham Act to § 602(a) of the Copyright Act. But since *Bourjois v. Katzel*, 260 U.S. 689, 43 S.Ct. 244, 67 L.Ed. 464 (1923), the courts have interpreted §§ 32 & 43(a), 15 U.S.C. §§ 1114 & 1125(a), in a manner that protects U.S. trademark owners

from competition from goods manufactured and purchased abroad and imported without the consent of the U.S. trademark owner. *NEC Electronics*, 810 F.2d at 1510.[12] This *Katzel* import protection is functionally equivalent to the Copyright Act's § 602, in that it allows U.S. companies to sue third parties that attempt to import lawfully obtained foreign manufactured goods without the authorization of the U.S. registered trademark owner.

The rationale behind the judicially created import protection described in *Katzel* is twofold: (1) it preserves the benefit of the bargain for United States companies that purchase domestic trademarks from foreign manufacturers, by preventing the foreign manufacturers from "evading the purpose of the transfer" by selling to third parties for import into the United States, *Katzel*, 260 U.S. at 691, 43 S.Ct. at 245; and (2) it preserves the integrity of the U.S. mark by preventing the "importation of foreign. purchased goods whose quality and contents were beyond [the U.S. trademark owner's] control." *NEC Electronics*, 810 F.2d at 1509. Each of these rationales "presuppose[s] the American owner's real independence from the foreign manufacturer." *Id.* Such independence is absent where the U.S. company asserting the right to sue third

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[12] Section 32 of the Lanham Act, 15 U.S.C. § 1114 provides registered trademark owners with a right of action against unauthorized use of the likeness of a mark in a manner "likely to cause confusion or to cause mistake or to deceive."
Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), provides for civil liability for marketing goods bearing "a false designation of origin."

party importers under *Katzel* is the wholly owned subsidiary of the foreign manufacturer. We have therefore created an exception to Katzel where there is a parent-subsidiary relationship between the U.S. trademark owner attempting to avoid competition from third party importers and the foreign manufacturer. *Id.* at 1510. It is this exception that Drug Emporium would have us apply to § 602 of the Copyright Act.

But the rationale for the parent-subsidiary exception to the import protection of the Lanham Act is inapplicable to copyright law. There is no indication that § 602 of the Copyright Act was particularly intended to give domestic copyright holders the benefit of their bargains with foreign manufacturers, nor that it was intended to protect U.S. copyright holders' control over the quality and contents of the copyrighted goods. In fact, the independence of the U.S. copyright holder from the foreign manufacturer is irrelevant to the concern underlying § 602 of the Copyright Act, which, as discussed above, is intended to give U.S. copyright holders protection against pirated and gray market imports.

In sum, nothing in the Copyright Act, the Lanham Act, or the Tariff Act, suggests that we should create an exception to the importation right granted to U.S. copyright holders by § 602(a) for U.S. subsidiaries of foreign manufacturers.

AFFIRMED.

PARFUMS GIVENCHY, INC.

v.

DRUG EMPORIUM, INC.

No. CV-92-4206 MRP.
United States District Court, C.D. California.
Nov. 23, 1992.

PFAELZER, District Judge:

The motion of plaintiff Parfums Givenchy, Inc. for Summary Judgment came on for hearing before this Court on November 16, 1992. After considering the parties' papers, arguments of counsel and all other matters presented to the Court, the Court determines that the following Uncontroverted Facts and Conclusions of Law have been established.

UNCONTROVERTED FACTS

1. Givenchy USA is a corporation organized under the laws of the State of New York, and has its principal place of business at 717 Fifth Avenue, New York, New York 10022. Verified Complaint ("Ver.Comp.") ¶ 3; Declaration of Robert L. Brady ("Brady Decl.") ¶ 2.

2. Givenchy USA is wholly owned by Parfums Givenchy, S.A. ("Givenchy France"), as corporation organized under the laws of France. Ver.Compl. ¶ 3; Brady Decl. ¶ 2.

3. Givenchy USA is the exclusive authorized distributor in the United States of perfume and other scented products manufactured by Givenchy France. Ver.Comp. ¶ 5; Brady Decl. ¶ 3.

4. Givenchy USA is the only party authorized to import the perfume products referred to in Paragraph 3 into the United States for consumption in this country. Brady Decl. ¶ 3.

5. Givenchy France manufactures in France a perfume that is marketed under the name "Amarige." Ver.Comp. ¶ 6; Brady Decl. ¶ 4; *see also* Affidavit of Kathleen Covault, Merchandise Manager Cosmetics and Fashion Merchandise of Drug Emporium, Inc. submitted by Drug Emporium, Inc. in opposition to Givenchy USA's motion for a preliminary injunction ("Covault Aff."), at ¶ 4.

6. Each bottle of Amarige perfume is packaged in a box, the outside of which contains a two-dimensional artistic border design ("Amarige Box Design"). Ver.Comp. ¶ 6; Brady Decl. ¶ 4; *cf.* Covault Aff. ¶ 4.

7. The Amarige Box Design was created by employees of Givenchy France in 1991. Ver.Comp. ¶ 7; Brady Decl. ¶ 5.

8. On February 27, 1992, Givenchy France sold to Givenchy USA the exclusive United States rights to the copyright for the Amarige Box Design. Ver.Comp. ¶ 8; Brady Decl. ¶ 6.

9. The Amarige Box Design constitutes copyrightable subject matter under the laws of the United States. Ver.Comp. ¶ 9.

10. The United States copyright for the Amarige Box Design was duly and legally registered to Givenchy USA by the United States Copyright Office on March 24, 1992. Ver.Comp., ¶ 10; Brady Decl. ¶ 7.

11. During this past year, Givenchy USA has spent more than five million dollars advertising Amarige perfume nationwide and promoting its image as a high-quality, high-prestige luxury item. Brady Decl. ¶ 9.

12. The Amarige Box Design is prominently featured in the advertising referred to in Paragraph 11 and is an important part of the overall Amarige perfume product. Brady Decl. ¶¶ 10, 11.

13. Defendant Drug Emporium, Inc. ("Drug Emporium") is a corporation organized under the laws of Delaware, and has its principal place of business at 155 Hidden Ravines Drive, Powell, Ohio 43065. Covault Aff. ¶ 4.

14. Drug Emporium owns numerous retail drug stores throughout the United States and has been transacting business in this judicial district. Ver.Comp. ¶ 4.

15. Drug Emporium has been selling reproductions of the Amarige Box Design in this judicial district. Declaration of Reed G. Strobl ¶¶ 4-6.

16. Drug Emporium acquired the reproductions referred to in Paragraph 15 by purchasing them from a third-party importer. Ver.Comp. ¶ 13; Covault Aff. ¶ 5; Drug Emporium, Inc.'s Memorandum of Points and Authorities in Opposition to Plaintiff's Motion for Preliminary Injunction at 4.

17. The reproductions referred to in Paragraph 15 were purchased abroad and then imported into the United States without Givenchy USA's authorization. Brady Decl. ¶¶ 3, 13; *see also* Drug Emporium, Inc.'s

Memorandum of Points and Authorities in Opposition to Plaintiff's Motion for Preliminary Injunction at 4.

18. Drug Emporium's unauthorized sale of Amarige perfume in the United States threatens to cause Givenchy USA irreparable harm by diluting its exclusive market and undermining the image of the Amarige perfume product as a high-quality, high-prestige luxury item. Brady Decl. ¶ 14.

19. The activities referred to in Paragraphs 15 through 17 are without the consent or permission of Givenchy USA or any authorized agent of Givenchy USA. Ver.Comp. ¶ 14; Brady Decl. ¶ 13.

CONCLUSIONS OF LAW

1. This action arises under the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.* This Court has jurisdiction over this action pursuant to 28 U.S.C. §§ 1331 and 1338.

2. Section 602(a) of the Copyright Act prohibits the "[i]mportation into the United States, without the authority of the owner of the copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106, actionable under section 501."

3. As the copyright holder at the time of a violation, plaintiff is entitled to sue on defendant's infringement. *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 944 F.2d 972, 980 (2d Cir.1991).

4. Plaintiff is the assignee of both the copyright to the box design on Amarige and the right to sue on claims

accrued on the copyright by the assignor. *SAPC, Inc. v. Lotus Development Corp.*, 921 F.2d 360, 363 (1st Cir.1990); *Custom Decor, Inc. v. Nautical Crafts, Inc.*, 502 F.Supp. 154, 156-57 (E.D.Pa.1980).

5. Defendant's sale in its retail outlets of Amarige perfume violated 602(a).

6. Defendant is liable as a party in the chain of distribution of the perfume. *CBS v. Scorpio Music Distributors, Inc.*, 569 F.Supp 47 (E.D.Pa.1983, *aff'd without op.*, 738 F.2d 424 (3d Cir.1984); *Stablisierungsfonds Fur Wein v. Kaiser Stuhl Wine Distribs. Pty. Ltd.*, 647 F.2d 200, 207 (D.C.Cir.1981).

7. Defendant's violation is not excused by the "first sale doctrine" of section 109(a) of the Copyright Act. *BMG Music v. Perez*, 952 F.2d 318 (9th Cir.1991).

8. After careful review, the Court enters summary judgment as a matter of law in favor of plaintiff.

9. Any Finding of Fact deemed to be a Conclusion of Law is hereby incorporated into these Conclusions of Law.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

PARFUMS GIVENCHY, INC., Plaintiff,	)	NO. CV-92 4206 MRP (CTx)
v.	)	JUDGMENT
DRUG EMPORIUM, INC., Defendant.	)	(Filed Nov. 23, 1992)

The above-captioned matter having come on for hearing before the Court on November 16, 1992, on Plaintiff's Motion for Summary Judgment on Liability and Equitable Relief, the Court having read and considered the papers filed in support of and in opposition to the Motion and having heard and considered the argument of counsel, and the Court having found that there is no genuine issue as to any material fact and that Plaintiff is entitled to judgment as a matter of law on issues of liability and equitable relief,

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED:

That Plaintiff Parfums Givenchy, Inc.'s motion for summary judgment on issues of liability and entitlement to equitable relief be, and it hereby is, granted;

That Defendant Drug Emporium, Inc., its agents, employees, and any persons acting on behalf of, by, through or in concert with it or them, are hereby permanently enjoined from, directly or indirectly, importing, selling, advertising, marketing, or otherwise distributing

any reproductions of the Amarige Box Design in the United States; and

That Plaintiff Parfums Givenchy, Inc. be, and it hereby is, awarded its reasonable attorney's fees and costs incurred in this action, to be paid by Defendant Drug Emporium, Inc.

Dated: November 23, 1992

/s/ Mariana R. Pfaelzer
UNITED STATES DISTRICT JUDGE

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 106 provides:

> **Sec. 106. Exclusive rights in copyrighted works**
>
> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
>
> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly

17 U.S.C. § 109(a) provides:

> **Sec. 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord**
>
> (a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any

person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 501(b) provides:

Sec. 501. Infringement of copyright

* * *

(b) The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it. The court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.

17 U.S.C. § 602(a) provides:

Sec. 602. Infringing importation of copies or phonorecords

(a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right

to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to –

(1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;

(2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or

(3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

BMG MUSIC; CBS, Inc.; A & M Records, Inc.,
Plaintiffs-Appellees,
v.
Edmundo PEREZ, individually and dba
La Feria del Disco and La Feria del Disco No. 1,
Defendants-Appellants.

No. 89-56318.
United States Court of Appeals,
Ninth Circuit.
Argued and Submitted Sept. 11, 1991.
Decided Dec. 24, 1991.

Owners of copyrights in sound recordings brought copyright infringement action against individual who, together with his wholly owned corporations, allegedly purchased plaintiffs' copyrighted sound recordings manufactured abroad, exported them to United States and sold them. The United States District Court for the Central District of California, Richard A. Gadbois, Jr., J., rendered judgment for plaintiffs and defendant appealed. The Court of Appeals, Beezer, Circuit Judge, held that: (1) defendant was not protected by the "first sale doctrine"; (2) sufficient evidence supported finding of willful infringement; and (3) district court did not abuse its discretion in awarding statutory damages or in imposing sanctions for contempt.

Affirmed.

Speros P. Maniates, Huntington Park, Cal., for defendants-appellants.

Russell J. Frackman, Mitchell, Silberberg & Knupp, Los Angeles, Cal., for plaintiffs-appellees.

Appeal from the United States District Court for the Central District of California.

Before BEEZER, HALL and WIGGINS, Circuit Judges.

BEEZER, Circuit Judge:

BMG Music, CBS Inc. and A & M Records, Inc. ("plaintiffs") brought a copyright infringement action against Edmundo Perez and his wholly owned corporations, La Feria del Disco and La Feria del Disco No. 1 ("Perez"). The district court entered judgment for the plaintiffs and Perez appeals. We have jurisdiction pursuant to 28 U.S.C. Sec. 1291 and affirm.

I

Plaintiffs produce, manufacture, distribute and sell phonorecords in the United States and own copyright in the various sound recordings embodied in those phonorecords. Plaintiffs brought suit against Perez alleging that Perez purchased plaintiffs' copyrighted sound recordings manufactured abroad, exported them to the United States and sold them in violation of the Copyright Act.

The district court entered a preliminary injunction enjoining Perez from importing or selling any of the plaintiffs' works. While the injunction was in force, Perez sold plaintiffs' copyrighted works manufactured abroad without plaintiffs' authorization. The district court found Perez in contempt and ordered that Perez pay sanctions to the plaintiffs. Subsequently, after a bench trial, the

district court found that Perez wilfully infringed plaintiffs' copyright and awarded statutory damages and attorney's fees.

II

Perez first contends that the district court erred in holding that Perez infringed plaintiffs' copyright by importing and selling plaintiffs' copyrighted material manufactured abroad. Perez contends that he is protected by the "first sale doctrine."

17 U.S.C. Sec. 602(a) prohibits the importation, without the copyright owner's permission, of copies acquired outside the United States.[1] 17 U.S.C. Sec. 109(a) prevents a copyright owner who has sold copies from interfering with the later sale of those copies if "lawfully made under this title."[2] The first sale doctrine in 17 U.S.C. Sec.

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[1] That section reads:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. . . .

17 U.S.C. Sec. 602(a) (1988).

[2] That section reads:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. Sec. 109(a) (1988).

109(a) does not, however, provide a defense to infringement under 17 U.S.C. Sec. 602 for goods manufactured abroad. The words "lawfully made under this title" in Sec. 109(a) grant first sale protection only to copies legally made and sold in the United States. *See CBS v. Scorpio Music Distributors*, 569 F.Supp. 47 (E.D.Pa.1983), *aff'd without op.*, 738 F.2d 424 (3d Cir.1984).

In *Scorpio*, the defendant imported phonorecords of works manufactured in the Philippines to which the plaintiff owned copyright. The court, in finding for the plaintiff, reasoned that "[c]onstruing 109(a) as superseding the prohibition on importation set forth in . . . Sec. 602 would render Sec. 602 virtually meaningless." *Id.* at 49. Copyright owners would no longer have an exclusive right to distribute copies or phonorecords of works manufactured abroad, an interest clearly protected by Sec. 602. *Scorpio*'s concern over the possibility of rendering meaningless Sec. 602 is justified and, for that reason, so is its result.[3] *See* 2 M. Nimmer & D. Nimmer, Nimmer on Copyright Sec. 8.12[B], at 8-143 (1991) ("[The conclusion in *Scorpio*] remains closest to the legislative intent underlying what is admittedly a difficult statutory juxtaposition.").

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[3] In *Sebastian Intern., Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098-99 (3d Cir.1988), the court held that the first sale defense superseded 602(a). That case, however, involved the exportation and later importation of copyrighted goods originally manufactured and sold in the United States. Because those facts are not before us in this case, we specifically decline to pass upon them here.

Perez next contends that his infringement was de minimis and that Sec. 602(a) should apply only to "wholesale" importation of copies. Because Perez imported multiple copies for commercial resale, exactly the behavior proscribed by the statute, Perez's argument is without merit.

Perez also contends that the unavailability of the works in the United States provides him with a first amendment defense to liability for copyright infringement. Because this is not one of those "rare instances when first amendment considerations will operate to limit copyright protection for graphic expressions of newsworthy events," *Sid & Marty Krofft Television v. McDonald's Corp.*, 562 F.2d 1157, 1171 (9th Cir.1977), this argument also is without merit. *See also Walt Disney Prods. v. Air Pirates*, 581 F.2d 751, 758 (9th Cir.1978), *cert. denied sub nom. O'Neill v. Walt Disney Prods.*, 439 U.S. 1132, 99 S.Ct. 1054, 59 L.Ed.2d 94 (1979).

III

Perez next contends that there was insufficient evidence to support a finding of wilful infringement. We disagree. Defendant's admissions at trial and conduct in violating the court's preliminary injunction are clear from our review of the record. The court's wilfulness finding is amply supported.

IV

Perez next argues that the district court abused its discretion in awarding statutory damages. Under 17 U.S.C. Sec. 504(c), the court may award damages of $250

to $10,000. *Id.* If the infringement is wilful, the court may award damages up to $50,000. *Id.* The court has "wide discretion" in setting the amount of damages within the statutory range. *Harris v. Emus Records,* 734 F.2d 1329, 1335 (9th Cir.1984).

In this case, the district court awarded damages in the amount of $15,000 for each infringement. Perez has not shown that the district court abused its discretion in setting the amount of statutory damages. In addition, Perez has not shown that the court erred in awarding plaintiffs their attorney's fees under 17 U.S.C. Sec. 505. *See McCulloch v. Albert E. Price, Inc.,* 823 F.2d 316, 323 (9th Cir.1987) (attorney's fees generally awarded to prevailing plaintiff in copyright cases).

V

Perez next challenges the district court's contempt order. Perez argues that the preliminary injunction did not prohibit the sale of the recordings for which the district court ordered sanctions. Perez also argues that he had no notice of the recordings subject to the injunction. Because the injunction clearly prohibited the sale of the recordings for which Perez was sanctioned, Perez's argument is without merit.

Perez next contends that the district court erred in relying on affidavits rather than on oral testimony in finding Perez in contempt. Because Perez failed to object at the contempt hearing, the district court did not err in relying on affidavits. *Locklin v. Switzer Brothers, Inc.,* 348 F.2d 244, 245 (9th Cir.1965).

Perez also contends that the district court erred by imposing an excessive sanction for contempt. We review for abuse of discretion. *See Gifford v. Heckler*, 741 F.2d 263, 266 (9th Cir.1984). Because the district court imposed a sanction of $10,000 for each violation of the preliminary injunction, an amount no greater than statutory damages for the resulting copyright infringement, the district court did not abuse its discretion in setting the amount of sanctions.

VI

Appellees are entitled an award of costs and attorney's fees pursuant to 17 U.S.C. Sec. 505. Fees will be fixed by separate order. Cir.R. 39-1.6.

The judgment of the district court is AFFIRMED.

SEBASTIAN INTERNATIONAL, INC.
v.
CONSUMER CONTACTS (PTY) LTD., d/b/a 3-D Marketing Services, Hiltexan Ltd., Fabric Limited, Quality King Manufacturing, Inc. and Quality King Distributors, Inc.
Appeal of HILTEXAN LTD. and Fabric Limited.

No. 87-5439.
United States Court of Appeals,
Third Circuit.
Argued Jan. 19, 1988.
Decided May 25, 1988.

Manufacturer of hair care products with copyrighted labels brought copyright infringement action against foreign purchaser of products who reshipped products to United States for resale. The United States District Court for the District of New Jersey, Maryanne Trump Barry, J., 664 F.Supp. 909, granted manufacturer preliminary injunction, and appeal was taken. The Court of Appeals, Weis, Circuit Judge, held that hair care product manufacturer which sold its goods with copyrighted labels to foreign distributor was barred by first sale doctrine from establishing infringement of copyright by unauthorized importation of goods back into United States.

Vacated and remanded.

Ina B. Lewisohn (argued), Melvin Greenberg, Steven D. Scharfetter, Greenberg, Dauber & Epstein, Newark, N.J., for appellants Fabric Limited and Hiltexan Ltd.

Robert A. Weiner (argued), David B. Wechsler, Berger & Steingut, New York City, Shanley & Fisher, Morristown, N.J., for appellee Sebastian Intern., Inc.

Weil, Gotshal & Manges, New York City (R. Bruce Rich, Stuart D. Levi, of counsel), Thomas J. Donegan, Jr., Marsha W. Gardner, The Cosmetic, Toiletry and Fragrance Ass'n, Inc., Washington, D.C., for amicus curiae The Cosmetic, Toiletry and Fragrance Ass'n, Inc.

John B. McCrory, Nixon, Hargrave, Devans & Doyle, Washington, D.C., for amicus curiae The Coalition For Competitive Imports.

Before GIBBONS, Chief Judge, WEIS and GREENBERG, Circuit Judges.

OPINION OF THE COURT

WEIS, Circuit Judge.*

This case comes to us in the guise of an alleged copyright infringement but, in reality, is an attempt by a domestic manufacturer to prevent the importation of its own products by the "gray market." We conclude that, having sold its goods with copyrighted labels to foreign distributors, the manufacturer is barred by the first sale doctrine from establishing infringement through an unauthorized importation. Consequently, we will vacate a

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*At the time of oral argument on this case, the Honorable Joseph F. Weis, Jr., was an active circuit judge. Since that time, Judge Weis has assumed senior status.

preliminary injunction enjoining defendants from distributing within the United States, products that plaintiff had manufactured in this country and then exported.

Plaintiff, Sebastian International, is a California corporation which manufactures and markets personal care beauty supplies. The two items at issue here, WET and SHPRITZ FORTE, carry copyrights for the text and artistic content of their labels. Sebastian maintains that its marketing policy restricts retail sales to professional salons. This strategy is designed to establish Sebastian's image, enhance its reputation, and foster its commercial success.

In 1986, Sebastian entered into an oral contract with defendant Consumer Contacts (PTY), Ltd. d/b/a 3-D Marketing Services, in which 3-D agreed to distribute Sebastian beauty products to professional hair styling salons in South Africa, but not elsewhere. Sebastian shipped four containers of WET, SHPRITZ FORTE and other products valued at approximately $200,000 to 3-D in Edenvale, South Africa in January 1987. 3-D then reshipped the unopened containers back to the United States where customs released them on May 14, 1987.

One week later, Sebastian, alleging breach of contract, sought a preliminary injunction against distribution of the products in the United States. The district court granted a temporary restraining order and scheduled a hearing. Later Sebastian amended its complaint to allege that defendant Fabric, Ltd. had possession of the products, and that the copyrights on WET and SHPRITZ FORTE labels were being infringed.

When it became evident that Fabric had not known of the contractual limitations between Sebastian and 3-D, the district court lifted its initial restraining order. The court concluded, however, that the two Sebastian labels came within the purview of the Copyright Act and issued a preliminary injunction against infringement.

As the district court read the pertinent provisions of the Copyright Act of 1976, 17 U.S.C. Secs. 106(3), 109(a), 602(a), the copyright holder has a right to control importation of copies, regardless of where they were made and despite the occurrence of a "first sale." After surveying the limited case law and the legislative history, the court understood the 1976 Act to create two types of distribution rights for copies; one tied to the act of vending and the other to the act of importation. In the court's view, vending was limited by the first sale doctrine; importation was not. Thus, Sebastian's right to control importation was "not extinguished when those goods were first sold regardless of where plaintiff's products were first sold or first manufactured." *Sebastian Int'l., Inc. v. Consumer Contact (PTY) Ltd.*, 664 F.Supp. 909, 920 (D.N.J.1987).

Defendants appeal the issuance of the preliminary injunction and present two issues for review. First, they contend that Sebastian did not demonstrate irreparable harm. Second, they argue that the first sale doctrine extinguishes the claim for copyright infringement. Defendants do not presently challenge the district court's determination that the labels had valid copyrights, having reserved that issue in the district court until the hearing on the permanent injunction. Consequently, that issue is

not before us and in view of our disposition of this case, we do not discuss the irreparable injury aspect.

I.

The Copyright Act is based on article I, section 8 of the United States Constitution, which grants Congress power to "Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." These monopoly privileges are "neither unlimited nor primarily designed to provide a special private benefit." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 782, 78 L.Ed.2d 574 (1984). Instead, they promote an important public purpose by encouraging the creative activity of authors and by allowing public access to "the products of their genius after the limited period of exclusive control has expired." *Id.*

The copyright statutes have been amended repeatedly in an attempt to balance the authors' interest in the control and exploitation of their writings with society's competing stake in the free flow of ideas, information and commerce. *Id.* Ultimately, the copyright law regards financial reward to the owner as a secondary consideration.

The Copyright Act of 1976, 17 U.S.C. Secs. 101-810 (1982) (repealing Copyright Act of 1909, ch. 320, Sec. 41, 35 Stat. 1075), contains three sections relevant to the issues presented here. The first, 17 U.S.C. Sec. 106, states:

> "Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies . . .
>
> * * *
>
> (3) to distribute copies . . . to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . "

The distribution rights granted by subsection (3) are limited by the second provision, section 109(a), known as the "first sale" rule, which provides in pertinent part: "Notwithstanding the provisions of section 106(3), the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy. . . . "

The third provision, section 602(a), addresses importation and reads: "Importation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106. . . . "

A.

The first sale doctrine has a venerable lineage. The Supreme Court construed the right of exclusive sale held by copyright owners in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 28 S.Ct. 722, 52 L.Ed. 1086 (1908), and decided that it did not create an additional prerogative enabling the holder to restrict future resales. The Court refused to

find infringement when a retailer sold a novel at a price below that listed in the copyright notice, observing that copyright protection is wholly statutory and independent of any contractual rights. Because it had previously exercised the right to vend copies, the copyright owner could not retain any further control over subsequent sales. The Court phrased the issue in general terms, answering in the negative the question whether "the sole right to vend . . . secure[s] to the owner of the copyright the right, after a sale of the book to a purchaser, to restrict future sales of the book at retail . . . ?" *Id.* at 350, 28 S.Ct. at 726.

In *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir.1984), we commented that section 109(a) "is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in this material. The first sale doctrine prevents the copyright owner from controlling the future transfer of a particular copy once its material ownership has been transferred." *Id.* at 159 (citation omitted). *See also Columbia Pictures Indus. v. Aveco, Inc.*, 800 F.2d 59, 64 (3d Cir.1986).

Similarly, the Court of Appeals for the Fifth Circuit wrote in *American Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir.1978), "[a]fter the first sale of a copy the copyright holder has no control over the occurrence or conditions of further sales of it. . . . The first sale thus extinguishes the copyright holder's ability to control the course of copies placed in the stream of commerce."

In describing the scope of section 109, the Senate Judiciary Committee reported:

> "Section 109(a) restates and confirms the principle that where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and section 27 of the present law, the copyright owner's exclusive right of public distribution would have no effect upon anyone who owns 'a particular copy or phonorecord lawfully made under this title' and who wishes to transfer it to someone else or to destroy it."

S.Rep. No. 983, 93d Cong., 2d Sess. 131 (1974), *reprinted in* 13 Omnibus Copyright Revision Legislative History (1977).

The first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property. *See Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F.Supp. 881, 883 (E.D.Pa.1964); Colby, *The First Sale Doctrine – The Defense That Never Was?*, 32 J. Copyright Soc'y U.S.A. 77, 89 (1984). *See also* H.R.Rep. No. 987, 98th Cong., 2d Sess. 2, *reprinted in* 1984 U.S. Code Cong. & Admin.News 2898, 2899 ("the first sale doctrine has its roots in the English common law rule against restraints on alienation of property"); 2 M. Nimmer, *The Law of Copyright* Sec. 8.12 (1987).

There is, however, an economic reason for the rule as well. As the district court said in *Burke & Van Heusen*, "the ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the

copyright proprietor has received his reward for its use." 233 F.Supp. at 884. *See Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir.1963). *See also Cosmair, Inc. v. Dynamite Enters., Corp.*, No. 85-0651, slip op. (S.D.Fla. Apr. 9, 1985) (1985 WL 2209).

B.

At first glance, section 602(a) – the importation clause – appears to clash with the first sale doctrine. We conclude, nonetheless, that the two provisions were intended to function interdependently and may be read in harmony with each other.

Section 602(a) creates an infringement of the exclusive right of distribution when copies acquired outside the United States are imported into this country without the copyright owner's permission. Congress added this section to the Copyright Act in 1976, responding to copyright holders who sought protection from unauthorized importation of copies.

Preliminary discussions leading to general revision of the copyright law continued for over twenty years, incorporated a series of major studies, and involved numerous meetings with representatives of interested parties. *See Mills Music, Inc. v. Snyder*, 469 U.S. 153, 159-61, 105 S.Ct. 638, 642-43, 83 L.Ed.2d 556 (1985). The hearings revealed the copyright owners' desire to prevent importation not only of "piratical copies" made without permission, but also of copies made by licensees in foreign countries. *See* Tyson & Parker, *Parallel Importation of Copyrighted Phonorecords*, 10 N.C.J. Int'l L. & Com. Reg. 397, 402-206 (1985);

Note, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U.J.Int'l L. & Pol. 113, 134-137 (1984).

The House Judiciary Committee acknowledged this concern when it explained, "[s]ection 602 . . . deals with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made." H.R.Rep. No. 1476, 94th Cong., 2d Sess. 169, *reprinted in* 1976 U.S. Code Cong. & Admin.News 5659, 5785. Only the second situation is presented here.

C.

The interrelationship between sections 602(a) and 109(a) may be interpreted in two possible ways, although neither is conclusively supported by the statutory language or legislative history. The first, and most sweeping, construction declares that in addition to the distribution rights conferred by section 106(3), section 602(a) grants copyright owners yet another distinct right – one that frees them from the first sale right of section 109(a), which otherwise limits section 106(3), and allows them to prevent the unauthorized importation of copyrighted copies. The district court adopted that view in this case.

The second interpretation reconciles sections 106(3) and 602(a) by reasoning that the importation prohibition does not enlarge the distribution rights, but serves only as a specific example of those rights subject still to the first sale limitation. This analysis poses a problem in the case of unauthorized imports of copies made abroad pursuant to a license restricting sales to a particular country.

Although the domestic copyright holder undoubtedly would prefer to block such importation, the statutory language does not expressly authorize such control.

Early in the drafting deliberations for the 1976 Act, the Copyright Office argued against imposing "a territorial restriction in a private contract upon third parties with no knowledge of the agreement." Tyson & Parker, *supra* at 403 (quoting Staff of House Comm. on Copyright Law Revision, 87th Cong., 1st Sess., Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law (Register's Report) 126 (Comm. Print 1961). The Office, however, later changed its position on the scope of section 602(a), finally agreeing that both authorized and unauthorized copies should be covered. Tyson & Parker, *supra* at 404.

The appellate courts have had little occasion to analyze the interplay between the first sale doctrine of section 109(a) and the importation right of section 602(a), but the district courts have struggled with the problem in a number of situations. In *Columbia Broadcasting Sys. v. Scorpio Music Distrib.*, 569 F.Supp. 47 (E.D.Pa.1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir.1984), the district court found infringement when copies, produced and sold exclusively in the Philippines under a license agreement, were imported into the United States – where the plaintiff owned the sole distribution rights. The district court concluded that the words "lawfully made under this title" in section 109(a) grant first sale protection only to copies legally made and sold in the United States. *Id.* at 49.

In *T.B. Harms Co. v. Jem Records, Inc.*, 655 F.Supp. 1575 (D.N.J.1987), the court also found infringement when phonorecords manufactured under license in New Zealand were imported into the United States. The court reached that conclusion despite the compulsory licensing provision applicable to phonorecords, commenting that the preliminary negotiations behind sections 602(a) and 115 did not furnish a reliable gauge of congressional intent. In particular, the court was wary of statements made by special interest groups and was reluctant to consider such views as expressions of the congressional intent shaping the Copyright Act.

A similar problem arose in *Hearst Corp. v. Stark*, 639 F.Supp. 970 (N.D.Cal.1986), when books lawfully made in England were imported into the United States, where the plaintiff held the copyrights. The district court, finding an infringement, decided that the first sale doctrine did not modify the importation restraints of section 602(a). Id. at 976-77.

In *Nintendo of America, Inc. v. Elcon Indus.*, 564 F.Supp. 937 (E.D.Mich.1982), the court enjoined the defendants from distributing electronic audio-visual games made in Japan under a license expressly limited to the territories of Japan. The agreement prohibited importation into the United States, where the plaintiff owned all the distribution rights under copyright. *But Cf. Neutrogena Corp. v. United States*, No. 2:88-0566-1, slip op. (D.S.C. Apr. 5, 1988) (first sale defense available where goods manufactured in United States and sold to defendant by third party); *Cosmair, Inc.*, slip op., (section 109 limits section 602 where products manufactured in the United States and re-imported).

Scorpio and *Harms*, although not binding on us, demonstrate a significant difference from the factual situation presented here. In those district court cases, the copies were produced abroad and the sales occurred overseas. The courts reasoned that the foreign origin of both manufacture and sale made the first sale doctrine inapplicable. However valid that interpretation of the "lawfully made under this title" language of section 109(a) – and we specifically do not pass upon it in this case – it does not affect our decision here.[1]

II.

The facts, seen here in the context of the first sale doctrine, are not complex. We do not confront a license agreement or copies produced in a foreign country under that agreement by someone other than the owner; instead, this case centers on actual copies of labels printed in this country by the copyright owner. Sebastian produced and sold the same copies which it now seeks to control.

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[1] We confess some uneasiness with this construction of "lawfully made" because it does not fit comfortably within the scheme of the Copyright Act. When Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern.

Furthermore, we note that it is trademark law that emphasizes the source of origin; copyright law focuses instead on originality of authorship. The Supreme Court has cautioned against applying doctrine formulated in one area to the other. *See Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 439 n. 19, 104 S.Ct. 774, 787 n. 19, 78 L.Ed.2d 574 (1984).

Under the first sale doctrine, when plaintiff made and then sold its copies, it relinquished all further rights "to sell or otherwise dispose of possession of that copy." Unquestionably that includes any right to claim infringement of the section 106(3) distributive rights for copies made and sold in the United States. With respect to future distribution of those copies in this country,[2] clearly the copyright owner already has received its reward through the purchase price.

Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive "a more adequate award" than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Consequently, we agree with the district court that the place of sale is not the critical factor in determining whether section 602(a) governs. We differ, however, with the district court's finding of infringement because, in our view, a first sale by the copyright owner extinguishes any right later to control importation of those copies.

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[2] Plaintiff concedes this point in its brief. "Sebastian submits that Sec. 602(a) prohibits importation into the United States of products incorporating copyright materials *irrespective of where the copies were manufactured*, if as here (i) the importation is without the authority of the United States copyright owner and (ii) the "first sale" of the products does not occur in the United States." Br. for Appellee at 9.

Section 602(a) does not purport to create a right in addition to those conferred by section 106(3), but states that unauthorized importation is an infringement of "the exclusive [section 106(3)] right to distribute copies." Because that exclusive right is specifically limited by the first sale provisions of Sec. 109(a), it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.[3] The preliminary injunction was granted on the basis of an erroneous reading of the law and therefore must be vacated.

Although this case turns purely on copyright law, we recognize that the underlying "gray market," or "parallel importing," issues really are dominant. Various economic factors – including the manipulation of global currency standards – encourage transactions in which goods are produced in this country, shipped and sold to foreign concerns, and then returned to the United States for resale at less than the domestic prices.

This practice has led to complaints by manufacturers seeking a fair return on their costs of promotion and servicing of warranties in this country. Equally vocal are consumer advocates asserting the desirability of access to identical goods at lower costs. Because contractual remedies have proved inadequate, *see Johnson & Johnson Products v. DAL Int'l Trading Co.*, 798 F.2d 100 (3d Cir.1986), domestic manufacturers now invoke the copyright law to advance their economic interests. This twist

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[3] This situation differs from that in which a licensee manufactures the copy. In that instance, the copyright holder does not own the tangible copy.

has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that the controversy over "gray market" goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.

The order of the district court granting a preliminary injunction will be vacated, and the case will be remanded to the district court for disposition of the remaining issues.

Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.,
Case No. CV-92-7455-MRP (C.D. Cal.)

Partial Transcript of Proceedings on December 6, 1993

MR. BONNER:[1] We have not been given a hearing date [for oral argument in the Ninth Circuit in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*].

THE COURT: Wait until they see the problem.

MR. BONNER: I'm sure this case [*i.e., Drug Emporium*] will get their attention.

THE COURT: Nobody is going to decide this quickly. No one. Because everybody would recognize the significance of it.

MR. BONNER: It has significant ramifications for every product imaginable.

THE COURT: You know that because you haven't [sic] seen what's been filed following that decision.

MR. BONNER: Following which decision?

THE COURT: The one that we made in here [in *Drug Emporium*].

MR. BONNER: Your decision.

THE COURT: Yes. There have been countless cases filed here in the district.

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[1] Counsel for defendant C&C Beauty Sales, Inc.

AMARIGE
de
GIVENCHY
PARIS
VAPORISATEUR
EAU DE TOILETTE
NATURAL SPRAY
℮ 50 ml
BEAUVEX
1⅞ FL.OZ

SUPREME COURT, U.S.
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(2)

No. 94-1249

IN THE
Supreme Court of the United States
OCTOBER TERM, 1994

DRUG EMPORIUM, INC.,

Petitioner,

v.

PARFUMS GIVENCHY, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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RESPONDENT' S BRIEF IN OPPOSITION

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RULE 29.1 STATEMENT

Pursuant to Supreme Court Rule 29.1, respondent Parfums Givenchy, Inc. states that its parent companies are Parfums Givenchy, S.A. and Louis Vuitton, both of which are wholly-owned subsidiaries of LVMH Moet Hennessy Louis Vuitton, S.A. Respondent has no nonwholly owned subsidiaries.

TABLE OF CONTENTS

Page

JURISDICTION 1

STATEMENT OF THE CASE 3

REASONS FOR DENYING THE PETITION 7

I. THE PETITION SHOULD BE DENIED BECAUSE THE DECISION BELOW DOES NOT IMPLICATE ANY CONFLICT OF AUTHORITY 7

II. THE PETITION SHOULD BE DENIED BECAUSE THE DECISION BELOW IS CLEARLY CORRECT 13

A. The First Question Presented 13

B. The Second Question Presented 17

III. DRUG EMPORIUM OVERSTATES THE SCOPE AND SIGNIFICANCE OF THE DECISION BELOW 19

CONCLUSION 23

TABLE OF AUTHORITIES

Cases	Page(s)
Adickes v. *S.H. Kress & Co.*, 398 U.S. 144 (1970)	18
Andrus v. *Glover Construction Co.*, 446 U.S. 608 (1980)	15
BMG Music v. *Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 112 S. Ct. 2997 (1992)	5, 8, 9
Beechwood Music Corp. v. *Vee Jay Records, Inc.*, 328 F.2d 728 (2d Cir. 1964)	16
Boesch v. *Graff*, 133 U.S. 697 (1890)	16
Columbia Broadcasting System, Inc. v. *Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984)	8, 9, 10, 18, 20
Daimler Manufacturing Co. v. *Conklin*, 170 F. 70 (2d Cir. 1909), *cert. denied*, 216 U.S. 621 (1910)	16
Deepsouth Packing Co. v. *Laitram Corp.*, 406 U.S. 518 (1972)	17

Table of Authorities-Continued

Delta Air Lines, Inc. v. *August*, 450 U.S. 346 (1981) 18

EEOC v. *Arabian American Oil Co.*, 499 U.S. 244 (1991) 15

Griffin v. *Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283 (E.D. Pa. 1978) 16

Griffin v. *Oceanic Contractors, Inc.*, 458 U.S. 564 (1982) 13

Hearst Corp. v. *Stark*, 639 F. Supp. 970 (N.D. Cal. 1986) 20

Living Media India Ltd. v. *Parekh*, 2 Copyright L. Rep. (CCH) ¶ 27,239 (S.D.N.Y. 1994) 20

Missouri v. *Jenkins*, 495 U.S. 33 (1990) 1, 2

Nintendo of America, Inc. v. *Elcon Industries, Inc.*, 564 F. Supp. 937 (E.D. Mich. 1982) 20

Original Appalachian Artworks, Inc. v. *J.F. Reichert, Inc.*, 658 F. Supp. 458 (E.D. Pa. 1987) 20

Parfums Givenchy, Inc. v. *C&C Beauty Sales, Inc.*, 832 F. Supp. 1378 (C.D. Cal. 1993), *appeal pending*, No. 94-55459 (9th Cir.) 5

Table of Authorities-Continued

Red Baron-Franklin Park Inc. v. *Taito Corp.*, 9 U.S.P.Q. 2d (BNA) 1901 (E.D. Va. 1988), *rev'd*, 883 F.2d 275 (4th Cir. 1989) 20

Robert Stigwood Group Ltd. v. *O'Reilly*, 530 F.2d 1096 (2d Cir.), *cert. denied*, 429 U.S. 848 (1976) 15

Sanofi, S.A. v. *Med-Tech Veterinarian Products, Inc.*, 222 U.S.P.Q. (BNA) 143 (D. Kan. 1983) 16

Sebastian International, Inc. v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988) 7, 8, 9, 11, 12

Selchow & Righter Co. v. *Goldex Corp.*, 612 F. Supp. 19 (S.D. Fla. 1985) 16, 20

Sony Corp. of America v. *Universal City Studios, Inc.*, 464 U.S. 417 (1984) 16

Stabilisierungsfonds Fur Wein v. *Kaiser Stuhl Wine Distributors Pty. Ltd.*, 647 F.2d 200 (D.C. Cir. 1981) 18

Subafilms, Ltd. v. *MGM-Pathe Communications Co.*, 24 F.3d 1088 (9th Cir. 1994) 15

T.B. Harms Co. v. *Jem Records, Inc.*, 655 F. Supp. 1575 (D.N.J. 1987) 20

United Dictionary Co. v. *G. & C. Merriam Co.*, 208 U.S. 260 (1908) 15

Statutes, Rules, and Legislative History

17 U.S.C. § 106(3) 19

17 U.S.C. § 109(a) . . . . . *passim*

17 U.S.C. § 501(b) 21

17 U.S.C. § 602(a) . . . . . *passim*

17 U.S.C. § 602(b) 22

28 U.S.C. § 2101(c) 1

Sup. Ct. R. 10.1(a). 7

Sup. Ct. R. 13.1. 1

Sup. Ct. R. 13.4 2

Sup. Ct. R. 14.1(k)(iii) 6

H.R. Rep. No. 1476, 94th Cong., 2d Sess. (1976), *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659 . . . . . 14, 19

S. Rep. No. 473, 94th Cong., 1st Sess. (1975) 14

Miscellaneous

1 P. Goldstein, *Copyright* (1989) 15, 17, 18

1 J. McCarthy, *Trademarks and Unfair Competition* (3d ed. 1994) 16

2 M. Nimmer & D. Nimmer, *Nimmer on Copyright* (1994) 9

R. Stern, *et al.*, *Supreme Court Practice* (7th ed. 1993) 10, 11

In The

SUPREME COURT OF THE UNITED STATES

October Term, 1994

DRUG EMPORIUM, INC.,

Petitioner,

v.

PARFUMS GIVENCHY, INC.,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION

Respondent, Parfums Givenchy, Inc. ("Givenchy USA") respectfully submits this brief in opposition to the petition for writ of certiorari filed by petitioner Drug Emporium, Inc. ("Drug Emporium").

JURISDICTION

Drug Emporium's petition appears to be untimely. To be timely filed, a petition for a writ of certiorari must be submitted to the Court within 90 days after the entry of judgment. *See* 28 U.S.C. § 2101(c); Sup. Ct. R. 13.1. "This 90-day limit is mandatory and jurisdictional." *Missouri* v.

Jenkins, 495 U.S. 33, 45 (1990). The judgment of the court below was entered on October 21, 1994. Drug Emporium filed its petition for writ of certiorari *91 days* later, on January 20, 1995.

Although a timely "Petition for Rehearing" under Rule 40 of the Federal Rules of Appellate Procedure will toll the 90-day period, *see* Sup. Ct. R. 13.4, Drug Emporium did not file such a petition. Rather, it filed only a "Suggestion of Rehearing En Banc," which it said was being submitted "[p]ursuant to Rule 35, Fed.R.App.P."[1/] A Suggestion of Rehearing En Banc under Rule 35 does not toll the time for filing a petition for writ of certiorari. *See* Sup. Ct. R. 13.4.

The Ninth Circuit entered an order in response to Drug Emporium's Suggestion of Rehearing En Banc stating that it was also denying a "petition for rehearing." But this reference by the Ninth Circuit to a document that was never filed is not sufficient to toll the 90-day period for submission of a petition to this Court. As this Court stated when addressing a similar situation, "[t]he Court of Appeals of course cannot make the record what it is not." *Jenkins*, 495 U.S. at 49.[2/]

[1/] The cover sheet and first page of Drug Emporium's Suggestion of Rehearing En Banc are reproduced in an addendum to this brief.

[2/] In *Jenkins*, this Court determined that the time for filing the petition was tolled because the petitioner had submitted in the court of appeals a document entitled "*Petition* for Rehearing En Banc," which the Court said could reasonably have been construed by the court of appeals as including a Petition for Rehearing under Rule 40. 495 U.S. at 47-48. Here, however, there was no ambiguity -- Drug Emporium filed only a *Suggestion* of Rehearing En Banc, and did so expressly "[p]ursuant to Rule 35." Since "the filing was no more than a suggestion for rehearing in banc . . . the petition for certiorari was untimely." *Id.* at 47.

STATEMENT OF THE CASE

1. This case involves a copyright infringement claim brought by Givenchy USA against Drug Emporium under Section 602(a) of the Copyright Act, 17 U.S.C. § 602(a). That section makes actionable as copyright infringement the "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States." The section also sets out three narrow exceptions to the importation ban, relating to government use, private use, and use by charitable institutions. None of these exceptions is alleged to apply in this case.

2. Givenchy USA is the exclusive authorized importer and distributor of Givenchy perfume products in the United States. These products are manufactured in France by Givenchy USA's parent company, Parfums Givenchy, S.A. ("Givenchy France"). After importing the products into the United States, Givenchy USA distributes them only to select retailers, such as Saks Fifth Avenue and Neiman Marcus.

One of the products manufactured by Givenchy France and distributed in the United States by Givenchy USA is a perfume marketed under the name "Amarige." Each bottle of Amarige is packaged in a box that is decorated with a distinctive two-dimensional design. This design has been prominently featured in the advertising of Givenchy perfume and is an integral part of the overall product offered for sale.

In February 1992, Givenchy France sold all of its rights in the U.S. copyright for the Amarige box design to Givenchy USA. After registering the copyright with the U.S. Copyright Office, Givenchy USA discovered that Drug Emporium, a nationwide chain of retail drug stores, was selling Amarige perfume products (including the copyrighted box design) that

it had acquired from an unauthorized third-party importer. These products, although lawfully manufactured in France, were not intended to be sold in the United States, but rather were diverted into this country through unauthorized channels.[3/]

3. In July 1992, Givenchy USA filed a copyright infringement claim against Drug Emporium in the U.S. District Court for the Central District of California. After obtaining a preliminary injunction, Givenchy USA moved for entry of summary judgment. In support of its motion, Givenchy submitted uncontested evidence that it had spent several million dollars advertising Amarige perfume, that it had included within that advertising depictions of the copyrighted design, and that Drug Emporium's unauthorized distribution of the product in the copyrighted box threatened to cause Givenchy USA irreparable harm by undermining the image of Amarige as a high-quality, high-prestige luxury item.

In opposition to Givenchy USA's summary judgment motion, Drug Emporium raised only two arguments. First, it asserted that it was shielded from liability by the "first sale doctrine," which is codified in Section 109(a) of the Copyright Act, 17 U.S.C. § 109(a). Section 109(a) provides that, "[n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." Second, Drug Emporium contended that there was an issue of fact concerning Givenchy USA's standing to enforce the copyright. The sole basis for the latter

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[3/] The unauthorized importation of goods protected by a trademark, copyright, or patent is commonly referred to as "gray market" or "parallel" importation.

argument was an affidavit suggesting that the Amarige products sold by one of the Drug Emporium stores may have been imported shortly before Givenchy France assigned the copyright in the Amarige box design to Givenchy USA.

On November 23, 1992, after a hearing, the district court granted summary judgment in favor of Givenchy USA. (*See* App. 19-25.) The district court rejected Drug Emporium's "first sale" defense on the basis of the Ninth Circuit's decision in *BMG Music* v. *Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 112 S. Ct. 2997 (1992), which held that Section 109(a) "does not . . . provide a defense to infringement under 17 U.S.C. § 602 for goods manufactured abroad." The district court also found that Givenchy USA had standing to bring the action, for two independent reasons: First, it was undisputed that Drug Emporium had been distributing the Amarige box design *after* the assignment of the copyright to Givenchy USA, and the court concluded that such distribution constituted an infringement of the copyright. Second, the court found that the circumstances of the assignment were such that it should be construed as including the right to sue for infringements occurring before the assignment.[4/]

4. In an opinion dated October 21, 1994, the Ninth Circuit affirmed the district court's entry of summary judgment. 38 F.3d 477 (9th Cir. 1994). With respect to the first sale issue, the Ninth Circuit noted that it had decided this "precise issue" in its earlier *BMG Music* decision and that "[t]he material facts of this case are nearly identical to those

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[4/] After obtaining summary judgment against Drug Emporium, Givenchy USA brought suit against Drug Emporium's importer, C&C Beauty Sales, Inc. Summary judgment was subsequently entered against C&C Beauty, and that case is currently pending before the Ninth Circuit. *Parfums Givenchy, Inc.* v. *C&C Beauty Sales, Inc.*, 832 F. Supp. 1378 (C.D. Cal. 1993), *appeal pending*, No. 94-55459 (9th Cir.).

in *BMG Music*." *Id.* at 481-82. Accordingly, as in *BMG Music*, the court held that the first sale doctrine was not a defense to liability under these circumstances. The court was careful to limit its holding to the particular facts of the case, stating: "We merely follow *BMG Music* in holding that sales *abroad* of foreign manufactured United States copyrighted materials do not terminate the United States copyright holder's exclusive distribution rights in the United States under §§ 106 and 602(a)." *Id.* at 482 n.8 (emphasis in original).

The Ninth Circuit also agreed with the district court that Givenchy USA had standing to sue under the Copyright Act. *Id.* at 480. The court concluded that Drug Emporium's copyright infringement occurred when it attempted to distribute the copyrighted products, which was after the assignment of the copyright to Givenchy USA. *Id.* Because of its ruling on this point, the court did not reach the issue of whether Givenchy USA also had standing by virtue of the circumstances of the assignment. *Id.* at 480 n.1.

Drug Emporium subsequently filed with the Ninth Circuit a "Suggestion of Rehearing En Banc" submitted "[p]ursuant to Rule 35, Fed.R.App.P." On January 12, 1995, the Ninth Circuit entered an order stating that "[t]he petition for rehearing is denied and the suggestion for rehearing en banc is rejected."[5/]

[5/] Contrary to Sup. Ct. R. 14.1(k)(iii), Drug Emporium did not include the order denying rehearing in its appendix. Accordingly, the order is attached as an addendum to this brief.

REASONS FOR DENYING THE PETITION

The petition should be denied because the decision below merely reaffirms settled law and does not implicate any conflict of authority. In addition, further review is unwarranted in this case because the decision below is clearly correct with respect to both of the questions presented. Finally, the petition overstates both the scope and significance of the decision.

I. THE PETITION SHOULD BE DENIED BECAUSE THE DECISION BELOW DOES NOT IMPLICATE ANY CONFLICT OF AUTHORITY.

The two questions presented by the petition concern issues of statutory construction. This Court ordinarily will not grant a writ of certiorari to review such questions absent a clear conflict with a decision of this Court, a federal court of appeals, or a state court of last resort. *See* Sup. Ct. R. 10.1(a).

Drug Emporium does not allege any conflict of authority with respect to the second question presented. With respect to the first question, the only conflict alleged is with a seven-year-old decision by the U.S. Court of Appeals for the Third Circuit, *Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). That case, like the present case, involved a claim brought under Section 602(a) of the Copyright Act. Unlike the present case, however, the copyrighted products in *Sebastian* were not made and first sold abroad. Rather, the products (hair care products with copyrighted labels) were made in the United States, shipped out of this country, and then imported back into the country. *Id.* at 1094.

Because of the factual situation presented in *Sebastian*, the Third Circuit expressly declined to reach the issue decided by the court below — whether the first sale doctrine is a defense to a claim under Section 602(a) when the goods in question are manufactured and first sold outside of the United States. Referring to two district court decisions that had rejected the first sale doctrine with respect to imports of foreign-made goods first sold abroad, the Third Circuit stated:

> *Scorpio* and *Harms*, although not binding on us, demonstrate a *significant difference* from the factual situation presented here. In those district court cases, *the copies were produced abroad and the sales occurred overseas.* The courts reasoned that the foreign origin of both manufacture and sale made the first sale doctrine inapplicable. However valid that interpretation of the "lawfully made under this title" language of section 109(a) — *and we specifically do not pass upon it in this case* — it does not affect our decision here.

847 F.2d at 1098 (emphasis added). In the present case, as in the two district court cases referred to in the above quotation, the copies at issue were "produced abroad and the sales occurred overseas." Accordingly, as the Third Circuit recognized, there is a "significant difference" between the facts of this case and those presented in *Sebastian*.

Contrary to Drug Emporium's assertion (Pet. 14), the Third Circuit was correct in concluding that the place of manufacture and sale is significant. The place of manufacture is significant because Section 109(a) refers to copies "lawfully made," which has been construed as a reference to copies lawfully made *within the United States*. *See, e.g., BMG Music*, 952 F.2d at 319; *Columbia Broadcasting Sys., Inc.* v. *Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa.

1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984). The place of sale is significant because Section 602(a) refers to copies "acquired outside the United States." Thus, a leading treatise on copyright law concludes that the construction of the statutes that is "closest to the legislative intent" is that the first sale doctrine does not apply when "*both* the sale and manufacture of copyrighted goods occur outside the United States." 2 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 8.12[B][6], at 8-152 to 8-153 (1994) (emphasis in original). Those circumstances exist in this case, but they did not exist in the *Sebastian* case.

Because of this factual difference, the Ninth Circuit in the decision below expressly declined to reach the issue decided in *Sebastian*. *See* 38 F.3d at 482 n.7. The Ninth Circuit's earlier decision in *BMG Music* also expressly distinguishes the *Sebastian* case. *See* 952 F.2d at 319 n.3. Importantly, this Court denied certiorari in the *BMG Music* case, despite an alleged conflict with *Sebastian*. *See* No. 91-1758 (June 22, 1992). There is no more conflict in the circuits today than there was when *BMG Music* was decided. The Court should therefore similarly deny certiorari in this case.

Not only is there no conflict between the Ninth and Third Circuits, the two circuits actually have taken *identical* positions on *both* of the questions presented by the petition. Prior to the *Sebastian* decision, the Third Circuit had affirmed without opinion a district court decision holding, like the court below, that Section 602(a) of the Copyright Act bars the importation of copyrighted goods made and first sold abroad. *See Columbia Broadcasting Sys., Inc.* v. *Scorpio Music Distribs., Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984). The Ninth Circuit relied on that decision in *BMG Music*. *See* 952 F.2d at 319. The Third Circuit in *Sebastian* did not overrule the earlier *Scorpio*

decision. *See* 847 F.2d at 1098. Accordingly, the current position of the Third Circuit with respect to the first question presented in the petition is identical to the position of the Ninth Circuit.[6/]

The court in *Scorpio* also reached the same conclusion reached by the court below with respect to the second question presented in the petition. Citing to principles of joint and several liability and contributory infringement, as well as to the general rule that a plaintiff in a copyright infringement action may sue any member of the "chain of distribution," the court in *Scorpio* held that the unauthorized distribution of copyrighted products imported into this country in violation of Section 602(a) constitutes copyright infringement. 569 F. Supp. at 48-49. Similarly, the court below concluded that the Copyright Act "protects copyright owners against both unauthorized importation *and* subsequent unauthorized distribution of copies of copyrighted materials." 38 F.3d at 480 n.2 (emphasis in original).

Because there so obviously is no conflict in the *holdings* of the two circuits, Drug Emporium primarily argues that there is a conflict in the "rationales" of the circuits with respect to the relationship between Section 602(a) and Section 109(a). (Pet. 8-12.) Even if this were true, a difference in reasoning between only two circuit courts is generally not sufficient to warrant a grant of certiorari. *See* R. Stern, *et*

[6/] Drug Emporium attempts to distinguish *Scorpio* as involving a sale abroad by a licensee rather than by the copyright owner itself. (Pet. 11 n.8.) That distinction certainly was not recited by the court in *Scorpio* as a basis for its decision. Rather, the court reasoned, like the court below, that sales abroad of foreign-manufactured goods do not constitute a first sale for purposes of Section 109(a). *See* 569 F. Supp. at 49. Under this analysis, it makes no difference if the sale abroad is by the copyright owner or its licensee.

al., *Supreme Court Practice* § 4.3, at 167 (7th ed. 1993) ("there must be a real or 'intolerable' conflict on the same matter of law or fact, not merely an inconsistency in dicta or in the general principles utilized"); *id.* § 6.31(a), at 355. In any event, it is not true.

Contrary to Drug Emporium's assertion, the Ninth Circuit, like the Third Circuit, viewed Section 602(a) as part of the exclusive distribution rights provided for in Section 106(3) of the Copyright Act and thus *potentially* subject to the first sale defense in Section 109(a). *See*, *e.g.*, 38 F.3d at 480 (noting that violation of Section 602(a) is "an infringement of the distribution rights provided in § 106"). The Ninth Circuit simply concluded that Section 109(a) does not provide a defense with respect to copyrighted goods made and first sold outside the United States, *id.* at 482 n.8, an issue on which the Third Circuit in *Sebastian* specifically declined to rule, *see* 847 F.2d at 1098. The Ninth Circuit did *not* adopt the construction of Section 602(a) adopted by the district court in *Sebastian* and rejected by the Third Circuit, *i.e.*, that Section 109(a) is *never* a defense to infringement under Section 602(a). Rather, the Ninth Circuit made clear that it *will* apply the first sale doctrine when there is a lawful sale in the United States, and also possibly when the goods are manufactured in the United States. *See*, *e.g.*, 38 F.3d at 481, 482 n.8. Nothing in *Sebastian* contradicts this reasoning.

Drug Emporium's argument on this point is misleading because it equates the "two possible ways" of interpreting the relationship between Section 602(a) and Section 109(a), referred to in *Sebastian*, 847 F.2d at 1097, with the reference by the court below to the "at least two plausible interpretations" of the statutes, 38 F.3d at 480-81. After equating these references, Drug Emporium suggests that the Third Circuit adopted one of the possible interpretations whereas the Ninth Circuit adopted the other. (Pet. 9-10, 14.)

This is not correct. In fact, these courts described a total of at least *three* different ways of interpreting the statutes, only one of which was referred to by both courts.

The "two possible ways" of interpreting the statutes referred to by the Third Circuit were (1) that Section 602(a) is an independent right *never* subject to the first sale defense, or (2) that it is one of the exclusive distribution rights of Section 106 and thus is subject to a first sale defense when that defense is applicable. 847 F.2d at 1097. The "at least two plausible interpretations" discussed by the Ninth Circuit, however, were (1) that Section 602(a) is *always* superseded by the first sale defense regardless of the place of manufacture or sale, or (2) that it is not superseded when the copyrighted goods are made and first sold abroad. 38 F.3d at 481.

The Third Circuit's rejection of the first possible interpretation to which it referred (*i.e.*, that Section 602(a) is never subject to a first sale defense) certainly was not a rejection of the *different* second possible interpretation referred to and adopted by the Ninth Circuit (*i.e.*, that Section 602(a) is not superseded by the first sale defense when the goods are made and first sold abroad), and vice-versa. Indeed, each court made clear that it was *not* rejecting the other interpretation. Moreover, in its earlier affirmance of the *Scorpio* decision, the Third Circuit had expressly *adopted* the interpretation adopted by the Ninth Circuit below.

In sum, there is no conflict in the circuits, and certiorari should accordingly be denied.

II. THE PETITION SHOULD BE DENIED BECAUSE THE DECISION BELOW IS CLEARLY CORRECT.

Review by this Court also is unwarranted because the decision below is clearly correct with respect to both of the questions presented.

A. *The First Question Presented*

Both the text and legislative history of the relevant provisions of the Copyright Act support the Ninth Circuit's rejection of Drug Emporium's first sale defense. Section 602(a) defines as copyright infringement the "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States." 17 U.S.C. § 602(a). In this case, there is no dispute that all the terms of Section 602(a) are met: (a) copies or phonorecords of a work (b) acquired outside the United States (c) were imported into the United States (d) without the authority of the owner of copyright. Accordingly, the plain language of Section 602(a) supports the Ninth Circuit's finding of copyright infringement. Where, as here, Congress' "will has been expressed in reasonably plain terms, 'that language must ordinarily be regarded as conclusive.'" *Griffin* v. *Oceanic Contractors, Inc.*, 458 U.S. 564, 570 (1982) (quoting *Consumer Prod. Safety Comm'n* v. *GTE Sylvania, Inc.*, 447 U.S. 102, 108 (1980)).

The legislative history of Section 602(a) confirms that Congress meant what it said. First, Congress clearly intended to make unauthorized importation an infringement of copyright when the goods in question are lawfully made and sold abroad. For example, both the House and Senate reports accompanying the final bill that became Section 602(a) stated:

> Section 602 . . . deals with two separate situations: importation of "piratical" articles (that is, copies or phonorecords made without any authorization of the copyright owner), *and unauthorized importation of copies or phonorecords that were lawfully made*. The general approach of section 602 is to make unauthorized importation *an act of infringement in both cases*, but to permit the United States Customs Service to prohibit importation only of 'piratical' articles.

H.R. Rep. No. 1476, 94th Cong., 2d Sess. 169 (1976), *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5785 (emphasis added).[7/] Second, these reports make equally clear that the three enumerated exceptions in Section 602(a) were intended to be exclusive: "If none of the three exemptions applies, any unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 170 (1976), *reprinted in* 1976 U.S. Code Cong. & Ad. News at 5786.[8/]

Nothing in the text or legislative history of Section 109(a) of the Act undermines this analysis. As a textual matter, it is far from clear that Section 109(a) was intended to have *any* limiting effect on Section 602(a), since it neither refers to Section 602(a) nor purports to confer a right of importation. Nor does the scant legislative history of Section 109(a) even mention importation. *See* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79-81 (1976), *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5693-95. This is not surprising, since, as the

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7/ *See also* S. Rep. No. 473, 94th Cong., 1st Sess. 151 (1975).

8/ *See also* S. Rep. No. 473, 94th Cong., 1st Sess. 152 (1975).

court below recognized, application of the first sale doctrine to goods manufactured and sold abroad would render the right to control importation granted in Section 602(a) "'virtually meaningless.'" 38 F.3d at 481 (quoting *BMG Music*, 952 F.2d at 319).

Moreover, the first sale doctrine set forth in Section 109(a) is not one of the enumerated exceptions in Section 602(a). "Where [as here] Congress explicitly enumerates certain exceptions to a general prohibition, additional exceptions are not to be implied, in the absence of evidence of a contrary legislative intent." *Andrus* v. *Glover Construction Co.*, 446 U.S. 608, 616-17 (1980). Indeed, as one prominent copyright author has observed, "to introduce a first sale defense into section 602(a) would obviate that subsection's exemptions . . ., since these copies will often be lawfully made gray market goods purchased through normal market channels abroad." 1 P. Goldstein, *Copyright* § 5.6.1.2, at 603-04 (1989).

The Ninth Circuit's rejection of the first sale doctrine in this context is also supported by general principles concerning the extraterritorial application of U.S. law. "It is a long-standing principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'" *EEOC* v. *Arabian American Oil Co.*, 499 U.S. 244, 248 (1991) (quoting *Foley Bros., Inc.* v. *Filardo*, 336 U.S. 281, 285 (1949)). This principle has specifically been applied to the copyright laws. *See United Dictionary Co.* v. *G. & C. Merriam Co.*, 208 U.S. 260, 264 (1908); *Subafilms, Ltd.* v. *MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095-97 (9th Cir. 1994) (en banc); *Robert Stigwood Group Ltd.* v. *O'Reilly*, 530 F.2d 1096, 1101 (2d Cir.), *cert. denied*, 429 U.S. 848 (1976). Accordingly, statutory limitations on the rights of U.S. copyright owners, such as Section 109(a) of the

Copyright Act, should not be presumed to be triggered by conduct, such as the manufacture and first sale of a product, occurring outside of the United States. *Cf. Beechwood Music Corp.* v. *Vee Jay Records, Inc.*, 328 F.2d 728, 729 (2d Cir. 1964) (licensing of reproductions of sound recordings abroad did not trigger compulsory license provisions of U.S. copyright law).

As the Ninth Circuit recognized, the fact that trademark law may not offer the same level of protection against unauthorized imports is irrelevant. First, as the Ninth Circuit noted, there is "no statutory equivalent" of Section 602(a) in trademark law. 38 F.3d at 484. Second, "the Copyright Act has a purpose, scope, and statutory scheme different from" that of trademark law. *Id.* at 483. Whereas "[t]rademark law prevents the use of a similar mark on such goods or services as would probably cause confusion," a copyright is infringed "if one violates any of the 'bundle' of exclusive rights of copyright." 1 J. McCarthy, *Trademarks and Unfair Competition* § 6:04[2], at 6-25 (3d ed. 1994); *see also Sony Corp. of America* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984) (noting the "fundamental differences" between copyright law and trademark law).[9/]

[9/] Drug Emporium's argument concerning patent law (Pet. 17-18) was not raised below and, in any event, is unavailing. It is well settled that the distribution of a patented product imported into the United States without the authority of the patent owner constitutes an infringement of the patent, notwithstanding any first sale of the patented product abroad. *See Boesch* v. *Graff*, 133 U.S. 697, 702-03 (1890); *Daimler Mfg. Co.* v. *Conklin*, 170 F. 70, 72 (2d Cir. 1909), *cert. denied*, 216 U.S. 621 (1910); *Selchow & Righter Co.* v. *Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985); *Sanofi, S.A.* v. *Med-Tech Veterinarian Products, Inc.*, 222 U.S.P.Q. (BNA) 143, 148-49 (D. Kan. 1983); *Griffin* v. *Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283, 1286 (E.D. Pa. 1978). This is because patent law, like copyright law, "makes no claim to extraterritorial effect." (continued...)

Drug Emporium's reference to general competition policies (Pet. 20-21) simply begs the question of whether unauthorized importation and distribution of copyrighted products is *lawful* competition. It also ignores the important affirmative policies that led Congress to enact Section 602(a) in the first place. It is the underlying purpose of the Copyright Act to provide owners of U.S. copyrights with the full value of their copyrighted works. 1 P. Goldstein, *Copyright* § 5.1.6.2, at 603 (1989). As the Ninth Circuit recognized, Section 602(a) promotes this purpose "by preventing the unauthorized importation of copies sold abroad from being used as a means of circumventing the copyright owner's distribution rights in the United States." 38 F.3d at 481. The resulting incentives to creativity have been determined by Congress to be more important than any short-run price reductions that might be obtained by permitting unauthorized importation and distribution of copyrighted works. Although Drug Emporium may disagree with Congress' policy determination, the courts are not the proper forum to address that grievance.

B. *The Second Question Presented*

The second question presented in the petition — whether retailers of unauthorized imports may be subject to liability under Section 602(a) — was not raised by Drug Emporium as an issue on appeal. Rather, it was mentioned by Drug

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[2](...continued)

Deepsouth Packing Co. v. *Laitram Corp.*, 406 U.S. 518, 531 (1972). The decisions cited by Drug Emporium that are allegedly to the contrary (Pet. 18 n.16) merely held that if a seller abroad has the right to import the patented product into the United States, and conveys that right to the buyer, the buyer does not infringe the patent by importing the product. In the present case, it is undisputed that the right to import the product into the United States has been granted *exclusively* to Givenchy USA.

Emporium only on one page of its reply brief, and only in the context of its standing argument. The Ninth Circuit therefore addressed this question only insofar as was necessary to resolve the standing issue. *See* 38 F.3d at 480 n.2 (declining to resolve whether Section 602(a) by itself makes retailers liable because it is "irrelevant to the standing question"). Because the issue was not squarely raised or decided on appeal, it is not appropriate for review by this Court. *See, e.g., Delta Air Lines, Inc.* v. *August*, 450 U.S. 346, 362 (1981); *Adickes* v. *S.H. Kress & Co.*, 398 U.S. 144, 147 n.2 (1970).

In any event, the Ninth Circuit's brief comment on this issue, *see* 38 F.3d at 482, was clearly correct. As the Ninth Circuit observed, "the purchaser of illegally imported copies has no more authority to distribute copies than does the original importer." *Id.* The only other decision to address the issue reached the same conclusion. *See Columbia Broadcasting Sys., Inc.* v. *Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 48-49 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984). As the court in *Scorpio* observed, this conclusion follows from principles of contributory infringement and joint and several liability, as well as from the general rule that a plaintiff in a copyright infringement case may sue any member of the distribution chain. *Id.; see generally Stabilisierungs-fonds Fur Wein* v. *Kaiser Stuhl Wine Distribs. Pty. Ltd.*, 647 F.2d 200, 207 (D.C. Cir. 1981); 1 P. Goldstein, *Copyright* § 5.6.1.2, at 604 (1989).

This conclusion is also consistent with the language and legislative history of Section 602(a). Although Section 602(a) makes unlawful certain "importation," the harm at which it is expressly directed is "an infringement of the exclusive right to *distribute* copies." 17 U.S.C. § 602(a) (emphasis added). Moreover, the three exceptions in the statute all relate to situations where the importation will not lead to further

distribution, such as the importation of single copies for personal use. In addition, Section 602(a) expressly refers to Section 106(3) of the Act, which confers exclusive rights over *distribution*. *See* 17 U.S.C. § 106(3); *see also* H.R. Rep. No. 1476, 94th Cong., 2d Sess. at 79 (1976), *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5693 (noting that "any resale of an illegally 'pirated' phonorecord would be an infringement").

Drug Emporium states that the liability of retailers under Section 602(a) is "debatable" and that a uniform national rule is needed. (Pet. 22-24.) The problem with this argument is that there *is* a uniform rule — the decision below is consistent with the only other decision to address the issue and with general principles of copyright law. Under Drug Emporium's own analysis, therefore, there is no reason for this Court to grant certiorari.

III. DRUG EMPORIUM OVERSTATES THE SCOPE AND SIGNIFICANCE OF THE DECISION BELOW.

Unable to show any conflict of authority or clear error by the court below, Drug Emporium stresses the "importance" of the lower court's decision. Drug Emporium, however, has substantially overstated both the scope and significance of the decision.

Drug Emporium suggests that the Ninth Circuit's resolution of the first sale issue will have "broad commercial and policy implications." (Pet. 15.) Drug Emporium neglects to mention that the conclusion reached by the Ninth Circuit is the same as that reached by almost all of the district courts to

consider the issue since Section 602(a) was enacted in 1976.[10/] Indeed, in the almost twenty years since the statute was enacted, only one district court has rejected Section 602(a) liability when the copyrighted good were made and first sold abroad, and that court's decision was reversed on other grounds on appeal.[11/] Moreover, the Ninth Circuit reached the same conclusion that it reached below in its 1991 *BMG Music* decision. The *BMG Music* decision in turn relied heavily on the 1983 *Scorpio* decision. Thus, far from working any dramatic change in the law, the decision below reaffirms settled principles.

Drug Emporium nevertheless suggests that there will be a substantial increase in the number of suits brought under Section 602(a) as a result of the decision below. (Pet. 15-16.) As support for this proposition, Drug Emporium does not cite to any actual suits, but instead refers to two newspaper articles that contain self-serving statements by Drug Emporium's own counsel. (Pet. 15.) Drug Emporium also emphasizes a passing remark made by the district court over a year ago to seeing "countless" new Section 602(a) cases. In fact, that remark apparently was made in response to the filing of only

---

[10/] *See, e.g., Living Media India Ltd.* v. *Parekh*, 2 Copyright L. Rep. (CCH) ¶ 27,239 (S.D.N.Y. 1994); *Original Appalachian Artworks, Inc.* v. *J.F. Reichert, Inc.*, 658 F. Supp. 458, 462-63 (E.D. Pa. 1987); *T.B. Harms Co.* v. *Jem Records, Inc.*, 655 F. Supp. 1575, 1582-83 (D.N.J. 1987); *Hearst Corp.* v. *Stark*, 639 F. Supp. 970, 974-77 (N.D. Cal. 1986); *Selchow & Righter Co.* v. *Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985); *Columbia Broadcasting Sys., Inc.* v. *Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 48-49 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984); *Nintendo of America, Inc.* v. *Elcon Indus., Inc.*, 564 F. Supp. 937, 943-44 (E.D. Mich. 1982).

[11/] *See Red Baron-Franklin Park Inc.* v. *Taito Corp.*, 9 U.S.P.Q.2d (BNA) 1901 (E.D. Va. 1988), *rev'd*, 883 F.2d 275 (4th Cir. 1989).

two cases. Undersigned counsel is not aware of any great increase in the number of Section 602(a) cases, and Drug Emporium certainly does not cite to any such cases.

Drug Emporium also asserts, without any support, that "[a]n exceptional amount of commerce has been affected." (Pet. 16.) Allegations such as these — which cannot be verified by the Court — are precisely why this Court ordinarily awaits a true conflict of authority. If the decision below does lead to a significant adverse impact on commerce, then a conflict with the decision of another circuit is likely to arise. If, as respondent believes much more probable, that does not occur, and no conflict arises, then there will be no reason for this Court to review the issue.

Moreover, in arguing the significance of the decision, Drug Emporium ignores important limitations on the scope of the right granted by Congress in Section 602(a) — limitations that reduce any effect the statute might have. First, to initiate an action under the statute, the plaintiff must be the owner of a valid United States copyright. *See* 17 U.S.C. § 501(b). Although there was no challenge to the copyrightability of Givenchy USA's box design in this case, the requirement of a valid copyright certainly will limit reliance on Section 602(a) in other cases.[12/] Second, the protection accorded by Section 602(a) presumably extends only to the copyrighted element of the product; thus, if the copyright covers a separable and unimportant portion of the product, the importation restriction of Section 602(a) can easily be avoided by importing the product without the copyrighted element. Third, unlike other

---

[12/] Drug Emporium appears to question in its petition the application of copyright protection to the packaging of a product. (*See, e.g.*, Pet. 13, 15.) However, Drug Emporium never raised this or any other copyrightability argument in the lower courts and those courts therefore never considered the issue.

intellectual property rights, the U.S. Customs Service does not enforce Section 602(a) at the border with respect to lawfully made goods. *See* 17 U.S.C. § 602(b). Thus, as expressly recognized in the House and Senate reports quoted above, *see supra*, at 14, the effect of Section 602(a) is limited to private enforcement actions.

In sum, Drug Emporium's arguments about the incremental impact of the Ninth Circuit's decision are exaggerated, unsubstantiated, and premature. Also, to the extent they implicate the relationship between competition policy and statutorily-created intellectual property rights, these arguments, absent a conflict of authority, are more properly addressed to Congress than to this Court. Because there is no existing conflict of authority, there is no reason for this Court to review the lower courts' consistent interpretation and implementation of a policy decision made by Congress in enacting Section 602(a) of the Copyright Act.

CONCLUSION

The petition for a writ of certiorari should be denied.

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February 1995

ADDENDUM

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Case No. 92-56359
Case No. 93-55050

On Appeal From The United States District Court
For The Central District of California

Case No. CV-92-4206-MRP

PARFUMS GIVENCHY, INC.,

Plaintiff - Appellee

v.

DRUG EMPORIUM, INC.,

Defendant - Appellant.

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Pursuant to Rule 35, Fed.R.App.P., appellant Drug Emporium, Inc. ("Drug Emporium") seeks rehearing en banc of this appeal. A copy of the panel opinion ("Op."), filed October 21, 1994, is attached hereto as Exhibit A.

SUMMARY

This appeal raises the question whether the Copyright Act prohibits "gray-market" competition in ordinary consumer goods. Gray-market goods are genuine products bearing valid trademarks which are purchased abroad and imported into the United States without the "authorized" distributor's permission. The gray-market good in this case is a perfume manufactured in France and marketed under the name "Amarige." Amarige is sold in individual boxes decorated with a copyrighted graphic design. Drug Emporium purchased Amarige from a third-party importer and sold it in its retail stores.

Appellant Parfums Givenchy, Inc. ("Givenchy USA") sued Drug Emporium under § 602(a) of the Copyright Act. Section 602(a) prohibits the importation of copyrighted goods acquired abroad — in this case, Amarige boxes — without the copyright owner's permission. Usually, purchasers of copyrighted goods are protected by the "first sale" doctrine in § 109(a) of the Act. That doctrine holds that copyright owners may not control the distribution of such goods after

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

PARFUMS GIVENCHY, INC.,	Nos. 92-56359, 93-55050
Plaintiff - Appellee,	D.C. No. CV-92-4206-MRP
vs.	O R D E R
DRUG EMPORIUM, INC.,	
Defendant - Appellant.	

Before: TANG, PREGERSON and NOONAN, Circuit Judges

The members of the panel that decided this case voted unanimously to deny the petition for rehearing and to reject the suggestion for rehearing en banc.

The full court has been advised of the suggestion for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for rehearing is denied and the suggestion for rehearing en banc is rejected.

(3)

No. 94-1249

FEB 23 1995

In The

Supreme Court of the United States

October Term, 1994

DRUG EMPORIUM, INC.,

Petitioner,

v.

PARFUMS GIVENCHY, INC.,

Respondent.

Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF AFTA, MARSHALL'S AND AMOA, AS *AMICI CURIAE* IN SUPPORT OF THE PETITION FOR WRIT OF *CERTIORARI*

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15 pp

TABLE OF CONTENTS

Page

Table of Contents i

Table of Authorities ii

Statutes iii

Other Authorities iii

Miscellaneous iii

Interest of the Amici Curiae 1

Summary of the Argument 3

Argument 5

I. The Ninth Circuit Is In Direct Conflict With The Third Circuit 5

II. The Unusual Economic, Policy and Legal Significance of the Instant Decision Justifies *Certiorari* Review 6

A. Economic Considerations 7

B. Policy Considerations 9

Conclusion 11

TABLE OF AUTHORITIES

Page

CASES

Bell and Howell: Mimiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983) *cert. denied*, 479 U.S. 950 (1987) 2

Cosmair, Inc. v. Dynamite Enterprises, Inc., 226 U.S.P.Q. 344 (S.D. Fla. 1985) 2, 7

Estee Lauder v. Wal-Mart, Case No. CV 94-3277 (C.D.Cal. 1994) 8

Johnson & Johnson Products, Inc. v. DAL International Trading Co., 798 F.2d 100 (3d Cir. 1986) 2

K Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988) *Kabushiki Kaisha Hattori Seiko v. Refac Technology Development Corp.*, 690 F.Supp. 1339 (S.D.N.Y. 1988)..... 2, 6, 9

Kabushiki Kaisha Hattori Seiko v. Refac Technology Development Corp., 690 F.Supp. 1339 (S.D.N.Y. 1988)..... 9

Merrill Lynch, Pierce, Fenner & Smith v. Corran, 456 U.S. 353, (1982)..... 11

Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986), *cert. denied*, 486 U.S. 1042 (1988) 2

Parfums Givenchy, Inc. v. K Mart, et al., Case No. 94-7647(C.D. Cal. 1994) 8

Red Baron Franklin Park v. Taito Corp., 9 U.S.P.Q. 2d 1901 (E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989), *cert. den.*, 493 U.S. 1058 (1990) 7, 10

Sebastian Intern. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093 (3d Cir. 1988) 2, 4, 5, 10

TABLE OF AUTHORITIES – Continued

Page

Seiko v. Refac Technology, 9 U.S.P.Q. 2d 1046 (S.D.N.Y. 1988) 5

Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986) 2

Wehrly v. United States, 808 F.2d 1311 (9th Cir. 1986) 11

STATUTES

17 U.S.C. § 602 ..... 3, 6

17 U.S.C. § 602(a) 5

17 U.S.C. § 109 3

17 U.S.C. § 109(a) 5

OTHER AUTHORITIES

P.L. 101-650, § 103 10

1990 U.S. CODE CONG. & ADMIN. NEWS 6935, 6947 10

MISCELLANEOUS

Unable to Protect Product Trademarks, Manufacturers *Copyright the Boxes*, New York Times (November 24, 1994) 8

No. 94-1249

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DRUG EMPORIUM, INC.,

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For The Ninth Circuit

BRIEF OF AFTA, MARSHALL'S AND AMOA, AS *AMICI CURIAE* IN SUPPORT OF THE PETITION FOR WRIT OF *CERTIORARI*

INTEREST OF THE AMICI CURIAE

The amici on this brief are as follows:

The American Free Trade Association ("AFTA") is an incorporated trade association of independent American importers, distributors and wholesalers of parallel import fragrances. Many of the Association's members are small businesses that are located throughout the United States and employ hundreds of American citizens.

Marshall's Inc., is a national retailer with over 450 stores throughout the United States. Marshall's employs approximately 24,000 associates nationwide.

The Amusement and Music Operators Association ("AMOA") is a trade association representing over 1,500 small businesses located throughout the United States which commercially place jukeboxes, video games, and other coin-operated music and amusement devices.

Parallel imports, sometimes also referred to as "gray market" goods, are genuine trademarked consumer products, such as fragrances, 35mm cameras, electronic products, and watches, which are typically manufactured abroad and imported by independent American importers rather than by "authorized" U.S. importers and distributors. Parallel imports exist because the manufacturers, for reasons of their own, seek significantly higher prices for their products in the United States than elsewhere in the world.

The amici have a vital stake in the outcome of this case, and filed previous *amici* briefs on similar issues.[1]

---

[1] *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986); *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), *cert. denied*, 486 U.S. 1042 (1988); *Bell and Howell: Mimiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983) *cert. denied*, 479 U.S. 950 (1987); *Johnson & Johnson Products, Inc. v. DAL International Trading Co.*, 798 F.2d 100 (3d Cir. 1986); *Sebastian Intern. Inc. v. Consumer Contracts (PTY), Ltd.*, 847 F.2d 1093 (3d Cir. 1988); *Cosmair, Inc. v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. 334 (S.D. Fla. 1985).

The instant challenge under the Copyright Act is just one prong of a full-scale attack by some manufacturers who are attempting to eliminate the legitimate and beneficial competition presented by the parallel importation and re-importation of their own products. This is a strategy that has been unsuccessful in court through the use of the trademark and patent laws.

SUMMARY OF THE ARGUMENT

The Ninth Circuit and the Third Circuit are in direct conflict in their interpretation of the relationship between the first sale doctrine found in 17 U.S.C. § 109 and the import restriction found in 17 U.S.C. § 602. According to the Ninth Circuit, absent permission of the U.S. copyright holder, the importation and subsequent distribution of foreign bought products bearing a U.S. copyright constitutes infringement, even when the copyright owner itself has already sold the same goods and earned a return on that sale. That court concluded that a foreign sale is not a "valid" first sale because it was not "lawfully made under this title." Such an expansive interpretation effectively abolishes the first sale doctrine for foreign bought products bearing U.S. copyrights and is inconsistent with analogous decisions under U.S. patent and trademark laws.

By contrast, the Third Circuit held that the first sale by a copyright holder extinguishes the copyright regardless of the place of sale. This is the better rule, since it preserves the traditional balance between the copyright

holder's right to earn a just return and the policy against unduly restricting free alienation of property.

The Ninth Circuit's reading of a location of sale requirement into the copyright laws is simply unwarranted and unsupported by the statutory text or legislative history. The first sale doctrine, although codified, "finds its roots in the common law aversion to limiting the alienation of personal property." *Sebastian, infra.* Although the copyright law has undergone enormous changes since its original enactment, at no point has Congress chosen to modify the language of the statute to incorporate a territorial restriction. The Ninth Circuit's interpretation of the statute's relation to the import restriction is therefore not consistent with Congressional intent and expands the import restriction beyond its proper scope.

Finally, this decision significantly impacts the *amici curiae,* the American consumer and the American economy. By adopting an interpretation at odds with other Circuits, the Ninth Circuit renders amici open to contradictory and inconsistent legal liability and undermines their ability to market and distribute nationally. The *amici curiae* strongly urge the Court to accept *certiorari* on this important national issue.

ARGUMENT

I. The Ninth Circuit Is In Direct Conflict With The Third Circuit.

The Ninth Circuit's decision in the instant case is in direct conflict with the Third Circuit's decision in *Sebastian Intern. v. Consumer Contacts*, 847 F.2d 1093 (3d Cir. 1988). The conflict arises from the differing interpretation of the relationship between 17 U.S.C. § 602(a) ("the import restriction") and 17 U.S.C. § 109(a) ("the first sale doctrine"). The decision below is concerned with the locus of the first sale of the product. ("There was no first sale because the defendant purchased the copyrighted material *abroad.*" (emphasis in original)) The Ninth Circuit found the first sale doctrine does not limit the copyright holder's distribution rights and right to restrict importation when the first sale is a foreign sale.

The Third Circuit in *Sebastian* **expressly** contradicts this proposition in holding that "the **place of sale is not the critical factor** in determining whether section 602(a) governs." *Sebastian*, 847 F.2d at 1099. (emphasis added) Furthermore, it expressly contradicts the holding that an infringement was committed upon importation of the foreign purchased product when it stated that "a first sale by the copyright holder extinguishes any right later to control importations of those copies." *Id.*

Our patent and trademark laws have followed a reasoning similar to that in *Sebastian*. The patent monopoly is deemed waived with respect to a particular patented item once it is sold, whether it is sold domestically or abroad. *See Seiko v. Refac Technology*, 9 U.S.P.Q. 2d 1046 (S.D.N.Y. 1988). Similarly, this Court has recognized that

trademarked goods purchased abroad or domestically from the trademark holder or a related company may be freely imported into this country and resold consistent with the Tariff Act. *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988).

Despite the Ninth Circuit's attempt to distinguish *Sebastian* on the basis of locus of manufacture, the distinction is artificial. In the instant case the products bearing the copyrights in question were manufactured abroad by the parent company of the U.S. copyright holder. In *Sebastian* the products bearing the copyrights were manufactured in the United States and shipped abroad. In both cases the first sale took place abroad. Although the Ninth Circuit quotes the language of earlier decisions which state that the first sale protection only applies to products made and sold in the U.S., its own articulation of the rule is based on place of sale. Nowhere does the Court state that the *locus* of manufacture is a relevant concern. The critical factor was instead the *locus* of sale - the very point on which the Third Court has reached an opposite holding. Accordingly, there is a clear conflict which this Court should address.

II. The Unusual Economic, Policy and Legal Significance of the Instant Decision Justifies *Certiorari* Review

While the import restriction in Section 602 was certainly designed to provide at least some greater protection for the copyright holder, nothing on the face of the statute suggests that it is intended to allow a copyright holder to restrain trade, after he has received a "reward"

for his copyright. When a copyright holder directly or through a related company sells a work overseas, he is receiving his fair "reward." The mere importation of a work by the purchaser does not mean that the copyright holder did not receive a "reward" for his copyright. *Cosmair, Inc. v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. 344 (S.D. Fla. 1985); *Red Baron Franklin Park v. Taito Corp.*, 9 U.S.P.Q. 2d 1901 (E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 175 (4th Cir. 1989), *cert. den.*, 493 U.S. 1058 (1990), *Sebastian International*, 847 F.2d 1093 at 1099. This is the business of the parallel market.

The parallel market has existed and grown in the United States for a great many years. It is both a significant entity in its own right, as well as an important source of affordable quality merchandise for U.S. consumers. Over the course of the last 50 years a very careful balance has been created to protect the legitimate interest of the holders of intellectual property rights to receive compensation for their efforts, while at the same time not allowing them to escape competition, in effect from themselves, when they choose to price discriminate in various markets. The Ninth Circuit decision not only upsets this delicate balance, but it also threatens the immediate nationwide disruption, and possible destruction, of the parallel market.

A. Economic Considerations

The parallel market represents a significant portion of the U.S. economy, involving practically the entire range of consumer products. In terms of only the single facet of the market – fragrances – which is the subject of

the instant litigation, the lobbying organization of which Parfums Givenchy is both a member and the current head estimates that 25% of the market consists of parallel merchandise. *Unable to Protect Product Trademarks, Manufacturers Copyright the Boxes*, New York Times, November 24, 1994. Fragrances, however, are only a portion of a growing industry which includes cosmetics, household goods and home electronics. In short, we doubt that respondent will dispute the economic significance of the industry at issue.

We likewise doubt that respondent would dispute the potential immediate nationwide impact of the Ninth Circuit decision. Within less than a month of the instant decision, respondent in this matter filed suit against K Mart Corporation, Sears, Roebuck & Co., Wal-Mart Stores, Inc., Marshall's Inc., Loehmann's Inc., and six other defendants. *Parfums Givenchy, Inc. v. Kmart, et al.*, Case No. 94-7647, United States District Court for the Central District of California. This litigation, which was filed against essentialiy all of the major discount retailers in the United States, seeks a permanent nationwide injunction preventing the distribution and sale of the brand perfume at issue here. *See also, Estee Lauder v. Wal-Mart*, Case No. CV 94-3277 (C.D.Cal. 1994) (Seeking an injunction under the same copyright theory.) In addition, the November 24, 1994 New York Times article references a copyright suit in Los Angeles involving porcelain figurines manufactured in Spain by Lladro Inc., and another similar suit brought by the U.S. subsidiary of an Austrian crystal company. That same article notes that "several cosmetic companies are considering similar actions (and) the Lancaster Group U.S.A., for example, has copyrighted

the bottles and boxes of its fragrances." New York Times, November 24, 1994.

In short, the Ninth Circuit decision can effect not just a nationwide restriction on the parallel market for fragrances, but for the entire range of consumer products. A decision which has the potential to destroy an entire industry of this economic significance deserves the most thorough review.

B. Policy Considerations

As the Ninth Circuit recognized, because of its implication to the entire parallel market, "serious policy considerations weigh on both sides of this debate." 38 F.3d at 481 n. 6. The package of bottled perfume at issue and its contents could have been protected with a patent or a trademark. In each instance, however, Congress and the courts have rejected the application of these doctrines to the exclusion of legitimate parallel market merchandise. *See K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Kabushiki Kaisha Hattori Seiko v. Refac Technology Development Corp.*, 690 F.Supp. 1339 (S.D.N.Y. 1988). As a matter of economic reality, what respondent sold was a bottle of perfume. The customer was attracted to purchase the bottle of perfume, not the minor design element on the box. It strains credibility to believe that Congress, after carefully allowing for parallel market goods in all other forms of intellectual property rights, would provide for the destruction of the parallel market by a ruse as transparent as the one at issue.

As the Third Circuit observed:

> This twist has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that **the controversy over "gray market"goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly**.

Sebastian, 847 F.2d at 1099. (emphasis added)

This comment is especially telling given the Congressional reaction to the decision in *Red Baron*. 9 U.S.P.Q. 2d 1901(E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989) *cert. den.*, 493 U.S. 1058. That case dealt with the *purchase overseas, of a foreign made*, copyrighted article, initially sold by the foreign copyright holder which was *related* to the U.S. copyright holder. The District Court refused to grant an injunction, finding that the "first-sale" by the related copyright holder overrode the import restriction in Section 602. *Id.* The Circuit Court overturned this decision, not based upon the import restriction, but rather that the public use of the copyrighted material violated the "performance right." *Id.* 883 F.2d at 281.

In 1990 Congress specifically amended the statute to overturn the *Red Baron* Circuit Court decision. See P.L. 101-650 § 103 and discussion in 1990 U.S. CODE CONG. & ADMIN. NEWS 6935, 6947. Although Congress created certain exceptions to the "first-sale" doctrine, it did not choose to modify the interpretation employed by the *Red Baron* District Court. This creates a presumption that Congress accepted the conclusions of the District Court,

which should now enjoy the force and effect of law. *Merrill Lynch, Pierce, Fenner & Smith v. Corran*, 456 U.S. 353, (1982); *Wehrly v. United States*, 808 F.2d 1311 (9th Cir. 1986).

In short, despite the decision in *Sebastian*, and the holding by the district court in *Red Baron*, Congressional action in 1990 reflects no decision on the part of the Congress to restrict the parallel market under the material facts of the instant case. Quite the contrary, these actions strongly indicate Congressional support of the continued existence of the parallel market and the applicability of the first sale doctrine to foreign sales.

CONCLUSION

For the foregoing reasons, this Court should grant the petition and issue a writ of *certiorari* to the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,

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In The

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October Term, 1994

DRUG EMPORIUM, INC.,

Petitioner,

vs.

PARFUMS GIVENCHY, INC.,

Respondent.

Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

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QUESTIONS PRESENTED

1. Is the "first sale doctrine" in § 109(a) of the Copyright Act a defense to an action for infringement under § 602(a) of the Act, when genuine goods with a copyrighted package design were imported into this country after the copyright owner sold them abroad?

2. Do retailers who sell goods imported into this country by others violate the prohibition against unauthorized "importation" in § 602(a) of the Copyright Act?

TABLE OF CONTENTS

Page

QUESTIONS PRESENTED i

TABLE OF AUTHORITIES iii

JURISDICTION 1

REASONS FOR GRANTING THE WRIT 2

I. A True Conflict Exists Between the Third and Ninth Circuits 2

II. The Second Question Is Properly Reviewable.. 6

III. The Significance Of The Decision Below Is Not Overstated 8

CONCLUSION 10

ADDENDUM A-1

TABLE OF AUTHORITIES

Page

CASES

Beechwood Music Corp. v. Vee Jay Records, 328 F.2d 728 (2d Cir. 1964) 4

BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 112 S. Ct. 2997 (1992) 4, 5

Boynton v. Virginia, 364 U.S. 454 (1960) 7

Cleary v. News Corp., 30 F.3d 1244 (9th Cir. 1994) 9

Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc., 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984) 3, 4

Missouri v. Jenkins, 495 U.S. 33 (1990) 2

Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc., 832 F.2d 1378 (C.D. Cal. 1993) 4

Red Baron-Franklin Park, Inc. v. Taito Corp., 9 U.S.P.Q.2d (BNA) 1901 (E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 175 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990) 8

Sebastian International, Inc. v. Consumer Contact (PTY) Ltd., 664 F. Supp. 909 (D.N.J. 1987), *vacated on other grounds*, 847 F.2d 1093 (3d Cir. 1988), *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988) 2, 3, 4, 5, 8

Stevens v. Department of Treasury, 500 U.S. 1 (1991) 7

STATUTES

17 U.S.C. § 104(b) 4

17 U.S.C. § 106 5

TABLE OF AUTHORITIES – Continued

Page

17 U.S.C. § 106(3) 5, 6

17 U.S.C. § 109(a) 2, 4, 5, 6, 8

17 U.S.C. § 109(b) 5

17 U.S.C. § 109(d) 5

17 U.S.C. § 501(b) 7

17 U.S.C. § 602(a) 2, 5, 6, 7, 8, 9

28 U.S.C. § 1400(a) 8

OTHER AUTHORITIES

M. Nimmer & D. Nimmer, *Nimmer on Copyright* (1994) 3

Stern, Gressman & Shapiro, *Supreme Court Practice* (6th ed. 1986) 1

Sup. Ct. R. 10.1(c) 7

Sup. Ct. R. 29.2 1

Fed. R. App. P. 35(c) 2

Fed. R. App. P. 41(a) 2

In The

Supreme Court of the United States

October Term, 1994

DRUG EMPORIUM, INC.,

Petitioner,

vs.

PARFUMS GIVENCHY, INC.,

Respondent.

PETITIONER'S REPLY BRIEF

Petitioner Drug Emporium, Inc. ("Drug Emporium") submits this reply to the Brief in Opposition ("Opp.") filed by respondent Parfums Givenchy, Inc. ("Givenchy USA").

JURISDICTION

Givenchy USA is wrong when it suggests that the petition was untimely filed. Although the Clerk received the petition on January 20, 1995, the petition was mailed via first class express mail on January 19, 1995, the 90th day after the entry of judgment by the court of appeals below. The Clerk properly relied on the order of the court of appeals below denying Drug Emporium's "petition for rehearing," and docketed the petition for certiorari on the date of receipt rather than the date of mailing. *See* Stern, Gressman & Shapiro, *Supreme Court Practice*, § 6.9, p. 326 (6th ed. 1986). The Clerk has changed the docket date from January 20 to January 19, to reflect the date of mailing. Sup. Ct. R. 29.2; *see* A-1, *infra*.

Missouri v. Jenkins, 495 U.S. 33 (1990), also demonstrates that Drug Emporium timely filed the petition. The court of appeals unquestionably treated the suggestion for rehearing en banc as a petition for rehearing. Like *Jenkins*, this is not a case in which the court of appeals below "granted rehearing or amended its order solely for the purpose of extending" the time for filing a petition for certiorari. *Id.* at 49.[1]

REASONS FOR GRANTING THE WRIT

I. A True Conflict Exists Between the Third and Ninth Circuits.

A. The court of appeals below held that "the importation right [conferred by § 602(a)] survives as to a particular copy unless and until there has been a first sale *in the United States*." Pet. App. 8 (emphasis in text). The Third Circuit in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988), held that "the place of sale is not the critical factor in determining whether section 602(a) governs." Pet. App. 49. Despite these contrary rulings, Givenchy USA insists there is no conflict between the two circuits because of a single factual difference: in this case the copyrighted goods were made abroad and sold abroad by the copyright owner, while in *Sebastian* the goods were made in the United States and sold abroad by the copyright owner.

Givenchy USA claims that "[t]he place of manufacture is significant because Section 109(a) refers to copies 'lawfully made,' which has been construed as a reference to copies lawfully made *within the United States*." Opp. 8

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[1] As in *Jenkins*, the Ninth Circuit did not issue its mandate within 21 days of entry of the judgment, Fed. R. App. P. 35(c) and 41(a), but only after denying a petition for rehearing. *See infra* at A-2-3 (mandate issued Jan. 20, 1995); *see Jenkins*, 495 U.S. at 48.

(emphasis in text). However, the court of appeals below rejected the construction of "lawfully made" suggested by Givenchy USA:

> In *BMG Music*, we stated: "The words 'lawfully made under this title' in § 109(a) grants first sale protection only to copies legally made and sold in the United States." 952 F.2d at 319 [Pet. App. 32]. Amici and some courts have pointed out that this broad language, if taken literally, would render the first sale doctrine wholly inapplicable to foreign manufactured goods, even after the goods have been lawfully imported into the United States with the authorization of the U.S. copyright holder. . . . We agree that such a result would be untenable, and that *nothing in the legislative history or text of § 602(a) supports such an interpretation.*

Pet. App. 10 n.8 (emphasis supplied).

The *Sebastian* court also expressed "some uneasiness with this construction of 'lawfully made' because it does not fit comfortably within the scheme of the Copyright Act. When Congress considered the place of manufacture important . . . the statutory language clearly expresses that concern." Pet. App. 48 n.2. Givenchy USA's suggested construction of "lawfully made" was originated by *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984). The *Sebastian* court was careful to note that *Scorpio's* construction is "not binding" on the Third Circuit. Pet. App. 48.[2]

---

[2] Givenchy USA cites M. Nimmer & D. Nimmer, *Nimmer on Copyright*, for the proposition that the *Scorpio* construction is "closest to the legislative intent." However, the authors also acknowledge that there is an "antipathy" between *Sebastian* and the approach taken in *Scorpio*. *Id.* at § 8.12[B][6] at 8-153, n.69.

B. As an alternative analysis, Givenchy USA states that § 109(a) does not apply to sales abroad of copyrighted goods because the Copyright Act was not intended to have extraterritorial effect. Opp. 15-16. However, "[t]his statement is neither completely accurate nor fully developed." *Sebastian International, Inc. v. Consumer Contact (PTY) Ltd.*, 664 F. Supp. 909, 917 (D.N.J. 1987), *vacated on other grounds*, 847 F.2d 1093 (3d Cir. 1988):

> A more accurate expression of the underlying legal principle is found in *Beechwood Music Corp. v. Vee Jay Records*, 328 F.2d 728, 729 (2d Cir. 1964), in which the Hon. Henry Friendly explained that, absent clearly expressed statutory intent to the contrary, the presumption is that the United States Code does not apply to actions not occurring in, *or having an effect in*, the United States. . . . A foreign sale, to the extent it does not satisfy the first sale doctrine, has an extremely significant effect in the United States because it defines the United States copyright owner's exclusive rights.

Id. (emphasis in text); *accord, Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F.2d 1378, 1386 (C.D. Cal. 1993) ("the judicial presumption against the application of United States statutory law does not apply in cases such as *BMG Music, Scorpio*, or the present case") (citing *Beechwood, supra*).[3]

C. Givenchy USA next argues that the Court's denial of certiorari in *BMG Music v. Perez*, 952 F.2d 318

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[3] Works are "subject to protection under this title" if the "work is first published . . . in a foreign nation that . . . is a party to the Universal Copyright Convention; or . . . is a Berne Convention work." 17 U.S.C. § 104(b). By seeking protection under the Copyright Act for label designs made in France (a party to both Conventions), Givenchy USA implicitly admits that the designs were "lawfully made under this title."

(9th Cir. 1991), *cert. denied*, 112 S. Ct. 2997 (1992), indicates the absence of a conflict here. Opp. 9. Unlike this case and unlike the Third Circuit decision in *Sebastian*, *BMG Music* involved a first sale by a licensee. The role of the copyright owner, the core of the conflict here, was not an issue in *BMG Music*.[4] The conflict here involves express holdings, not *dicta*. In the Third Circuit, "the place of sale is not the critical factor in determining whether section 602(a) governs" and "a first sale by the copyright owner extinguishes any right later to control importation," Pet. App. 49. In the Ninth Circuit, "sales *abroad* do not constitute a defense to copyright infringement under § 602(a)" and "the relationship between the copyright holder and the seller abroad is irrelevant." Pet. App. 12 n.9 (emphasis in text).

The conflict is the result of statutory silence. Neither the texts of §§ 109(a) and 602(a), nor their legislative histories, refer to each other. The only common textual thread is that §§ 109(a) and 602(a) both refer to § 106. *See* 17 U.S.C. § 602(a) (importation without authority is "an infringement of the exclusive right to distribute . . . under section 106"); 17 U.S.C. § 109(a) (first sale doctrine applies "notwithstanding the provisions of section 106(3)"). The copyright owner's exclusive right of distribution in § 106(3), and *all other* exclusive rights of a copyright owner, are expressly made "subject to sections 107 through 120," and therefore subject to § 109(a). 17 U.S.C. § 106.

D. Section 109 has specific exceptions that do not mention § 602(a). *See* 17 U.S.C. § 109(b) & (d). Givenchy USA prefers to argue that because § 602(a) also contains specific exceptions, an additional exception based on § 109(a) may not be implied. Opp. 15. Congress used

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[4] The petitioner in *BMG Music* was not represented by counsel, and the questions he presented differ from those here. *See* A-4 & A-5, *infra*.

explicit language when it wanted to exempt one provision of the Copyright Act from the reach of another. *See* 17 U.S.C. § 109(a) ("Notwithstanding the provisions of section 106(3) . . . "). There is no language in § 602(a) exempting it from the first sale doctrine.

E. Both the court of appeals below and the *Sebastian* court noted there were two possible interpretations of the relation between §§ 109(a) and 602(a). Pet. App. 7, 45. Givenchy USA is wrong when it claims that the interpretations adopted by the two courts are consistent with each other. The Third Circuit held that "a first sale by a copyright owner extinguishes any right later to control importation of those copies,", and "the place of sale is not the critical factor in determining whether § 602(a) governs." Pet. App. 49. The Ninth Circuit held that "the importation right survives as to a particular copy unless there has been a 'first sale' *in the United States.*" Pet. App. 8 (emphasis in text). These holdings cannot be simultaneously correct.[5]

In sum, both the Third and Ninth Circuits chose to disregard the place of manufacture as a basis for their decisions. Those decisions present an explicit conflict on whether § 109(a) applies in a § 602(a) action, when there is a first sale abroad by the copyright owner itself.

II. The Second Question Is Properly Reviewable.

Givenchy USA argues that the second question presented by the petition – whether non-importing retailers are liable for unauthorized "importation" infringement

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[5] Givenchy USA claims that the Ninth Circuit left open a third interpretation – that § 109(a) applies to "lawful" first sales following an importation authorized by the copyright owner. Opp. 11. Under this view, however, an "importation" not authorized by the copyright owner is never subject to § 109(a); only acts *after* authorized "importations" (and thus beyond the reach of § 602) would be subject to § 109(a). This would still mean that in the Ninth Circuit, § 602(a) would *not* be subject to § 109(a).

under § 602(a) – was not "squarely raised" by Drug Emporium because the issue was only mentioned "on one page of its reply brief, and only in the context of its standing argument." Pet. App. 17-18. However, the question was *essential* to the decision below on the issue of standing. When an issue is essential to a decision by a court of appeals, that issue is appropriate for review by this Court. *See Stevens v. Department of Treasury*, 500 U.S. 1, 8 (1991) (though not expressly presented below, the appellate court decided "the substantive issue presented" in the petition); *Boynton v. Virginia*, 364 U.S. 454, 457 (1960) (question in the petition was "within the scope of the issues" raised below).[6]

Only the "legal or beneficial owner of an exclusive right under a copyright" is "entitled . . . to institute an action for any infringement . . . committed while he or she is the owner of it." 17 U.S.C. § 501(b). When importation occurred in this case, Givenchy USA was not the legal or beneficial owner of any right. It only acquired such rights afterwards. For any infringing act to have occurred while Givenchy USA owned an exclusive right, the court of appeals necessarily decided that § 602(a) was violated when Drug Emporium sold the goods *after* importation.

Although it does not involve a conflict among circuits, the second question presented is an important one of federal law, Sup. Ct. R. 10.1(c), affecting retailers throughout the United States. By holding that language proscribing "importation" also covers acts other than importation, the Ninth Circuit has given a broader scope to § 602(a) than Congress did in the statute's text – and

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[6] Givenchy USA misunderstands footnote 2 of the opinion below. The Ninth Circuit did *not* say that the liability of non-importing retailers is "irrelevant to the standing question"; rather, it said that the distinction between importation and subsequent sale was "irrelevant to the standing question" because, in the court's view, both activities constituted infringement. Pet. App. 5 n.2.

has enlarged copyright owners' statutory monopoly at the expense of competition.[7]

III. The Significance Of The Decision Below.

A. Givenchy USA suggests that this case is not significant because a handful of district court decisions have created "settled principles" governing the relation between §§ 602(a) and 109(a). Opp. 20 and n.10. Leaving aside Givenchy USA's novel theory of binding precedent, the district court cases cited by Givenchy USA do not address the distinction between first sales by copyright owners and those by licensees. By contrast, other cases that addressed this difference recognized a first sale defense under § 109(a) when the first sale is by the copyright owner itself.

See Sebastian; Red Baron-Franklin Park, Inc. v. Taito Corp., 9 U.S.P.Q.2d (BNA) 1901 (E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 175 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990). Givenchy USA fails to mention that *Red Baron* was reviewed by Congress in the 1990 Copyright Act amendments, and Congress chose not to nullify the decision. *See* Brief of *Amici Curiae* Costco Wholesale Corporation *et al.* at 7-8 n.5.

B. Givenchy USA suggests that if the decision below has a significant impact on commerce, a conflict with another circuit "is likely to arise." Opp. 21. That assumes that future plaintiffs will be uninformed enough to file their lawsuits elsewhere than in the Ninth Circuit. For any defendant that is a national retail chain or that otherwise "may be found" somewhere in the Ninth Circuit, 28 U.S.C. § 1400(a), copyright owners have every incentive to forum shop the Ninth Circuit.

C. Givenchy USA claims it is not aware of "any great increase" in claims for copyright infringement

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[7] *See* Pet. 20-21; *see also* Brief of *Amici Curiae* Costco Wholesale Corporation *et al.* at 8-9.

under § 602(a). It also states that a remark by the district court below – that "countless" new § 602(a) cases had been filed in the Central District of California – "was made in response to the filing of only *two* cases." Opp. 20-21. These statements are misleading. Givenchy USA alone has brought five other lawsuits in the Central District of California under § 602(a), and its counsel also represents a distributor in a sixth case. *See infra* at A-6-7, Nos. 1-6. Givenchy USA also fails to mention other filings in the Central District. *Id.*[8]

D. Finally, Givenchy USA suggests there are practical limitations on the scope of § 602(a). Opp. 21. Although it is true that there must be some copyright on the product or its label, there is no reason to think that foreign manufacturers will prove incapable of preparing copyrightable label or packaging designs. Givenchy USA also suggests that importers should dismember products abroad – removing labels or packages – and then attempt to sell the products in the United States. Opp. 21. Unsurprisingly, Givenchy USA does not claim that it, Givenchy France, or anyone else has successfully sold products with removed labels or packaging in the U.S. market. Anyone who attempted this would risk a Lanham Act violation. *See Cleary v. News Corp.*, 30 F.3d 1244, 1261 (9th Cir. 1994) (removal of label bearing a trademark and selling the product "in an unbranded state" would violate Lanham Act § 43(a)) (citation omitted).

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[8] Givenchy USA mistakenly states that the petition's quotations from newspaper articles about the Ninth Circuit decision are the words of petitioner's counsel. Although counsel is quoted elsewhere in these articles, the passages cited in the petition are the words of others.

CONCLUSION

For these reasons and those stated in the petition, the Court should grant the petition.

Respectfully submitted,

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APPENDIX

SUPREME COURT OF THE UNITED STATES
OFFICE OF THE CLERK
WASHINGTON, DC 20543

WILLIAM K. SUTER
CLERK OF THE COURT

AREA CODE 202
473-3011

February 21, 1995

R. Lawrence Bonner, Esq.
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100 Southeast Second Street
Suite 3400
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Re: Drug Emporium, Inc. v. Parfums Givenchy, Inc.
No. 94-1249

Dear Mr. Bonner:

The petition for a writ of certiorari in the above-entitled case was docketed in this Court on January 19, 1995, as No. 94-1249.

Sincerely,

WILLIAM K. SUTER, JR., CLERK

by

Ruth Jones
Assistant Clerk

Enclosures

NOTE: Docket date amended to reflect the mailing date of the petition for a writ of certiorari.

Office of the Clerk
United States Court of Appeals for the Ninth Circuit
121 Spear Street, P. O. Box 193939
San Francisco, CA 94105-3939

January 20, 1995

USDC, Los Angeles
Central District of California, Los Angeles
Office of the Clerk
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Los Angeles, CA 90012

C.A. NO.	TITLE	AGENCY/ D.C. NO.
92-56359	Parfums Givenchy Inc v. Drug Emporium, Inc.	CV-206-MRP
93-55050	Parfums Givenchy Inc v. Drug Emporium, Inc.	CV-4206-MRP

Dear Clerk:

The following document(s) in the above listed cause(s) is (are) being sent to you under cover of this letter. Counsel are being served with a copy of this letter only.

[x] Certified copy of the Decree of the Court
[ ] Judgment of the National Labor Relations Board
[ ] Certified copy of the Entry of Dismissal

The record on appeal will follow under separate cover.

Please acknowledge receipt on the enclosed copy of this letter.

Cathy A. Catterson
Clerk of Court

By: Craig Westbrooke
Deputy Clerk

Enclosure(s)
ALL COUNSEL, WITHOUT ENCLOSURES

No. 91-1758

IN THE SUPREME COURT OF THE UNITED STATES

October Term 1992

EDMUNDO PEREZ, In Pro Se,

Petitioner

vs.

BMG MUSIC, CBS, INC. and
A&M RECORDS, INC.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI

To the United States Court of Appeals
for the Ninth Circuit

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QUESTIONS PRESENTED FOR REVIEW

1. Whether the first sale doctrine provides a defense to copyright infringement claims for phonorecords which are manufactured abroad and exported to the United States.

2. Whether the place of manufacture controls whether or not the first sale doctrine applies to section 602(a) of the Copyright Act. There is an apparent split of authority.

3. Whether section 602(a) of the Copyright Act applies to import records which are not available in the United States.

Recent Cases Under § 602(a) of the Copyright Act Filed In the Central District of California (Partial List)*

1. *Parfums Givenchy Inc. v. Perfumania Inc. and Longs Drug Stores Corp.*, C.D. Cal. No. 92-05730 (filed Sept. 23, 1992).

2. *Parfums Givenchy Inc. v. C&C Beauty Sales, Inc.*, C.D. Cal. No. 92-07455 (filed Dec. 18, 1992).

3. *Parfums Givenchy Inc. v. Allou Distributors*, C.D. Cal. No. 92-02857 (filed May 17, 1993).

4. *Parfums Givenchy Inc. v. Quality King Dist.*, C.D. Cal. No. 93-04789 (filed Aug. 10, 1993).

5. *Parfums Givenchy Inc. v. Kmart Corp.*, et al., C.D. Cal. No. 94-07647 (filed Nov. 10, 1994).

6. *Disenos Artisticos, Etc. v. Costco Wholesale Corp.*, C.D. Cal. No. 93-7061 RAP (filed Nov. 22, 1993; Judgment Jan. 13, 1995), *appeal pending*, 9th Cir. Nos. 95-55018 & 95-55106 (plaintiffs' counsel: Covington & Burling).

7. *Swarovski America Ltd. v. Price/Costco Inc. et al.* and *Swarovski America Ltd. v. Costco Wholesale Corp.*, C.D. Cal. Nos. 93-6365 SVW, 93-7403 SVW (filed Oct. 21, 1993, Dec. 7, 1993; Judgment Dec. 21, 1994).

8. *L'Anza Research International, Inc. v. Costco Wholesale Corp.*, C.D. Cal. No. 95-0244 TSH (filed Jan. 12, 1995).

9. *Wild Side West, Inc. v. Ohio Bag Corp., American Drug Stores, Inc. dba Osco Drug and Sav-On Drug Stores, Inc.*, C.D. Cal. No. CV 93 5656 JSL (filed Sept. 17, 1993).

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* COUNSEL HAS NOT DONE A COMPREHENSIVE SEARCH OF THE DISTRICT COURT'S DOCKET, BUT HAS SIMPLY LISTED KNOWN CASES.

10. *Fonovisa, Inc. v. Alameda Swap Meet Building A, Booth No. 8, Geogurea,* C.D. Cal. No. CV 94 0447 TJH (filed Jan. 21, 1994).

11. *Estee Lauder, Inc. v. Wal-Mart Stores, Inc.,* C.D. Cal. No. CD 94-3277 RMT (filed May 19, 1994).

Supreme Court, U.S.
FILED
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No. 94-1249

In The

Supreme Court of the United States

October Term, 1994

DRUG EMPORIUM, INC.,

vs.

Petitioner,

PARFUMS GIVENCHY, INC.,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF *AMICI CURIAE* COSTCO WHOLESALE CORPORATION, THE PRICE COMPANY, NATIONAL ASSOCIATION OF CHAIN DRUG STORES, INTERNATIONAL MASS RETAIL ASSOCIATION, AND NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS IN SUPPORT OF PETITIONER

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TABLE OF CONTENTS

	Page
INTEREST OF *AMICI CURIAE*	2
1. *Costco & Price Club*	2
2. *NACDS, IMRA and NACSM*	2
SUMMARY OF ARGUMENT	3
ARGUMENT	5
I. ENLARGING A STATUTORY MONOPOLY TO RESOLVE AN AMBIGUITY IN THE COPYRIGHT ACT IS CONTRARY TO THIS COURT'S PAST DECISIONS	5
A. Nature of the Statutory Ambiguity	6
B. Past Decisions on Enlarging Statutory Monopolies	8
II. THE TWO QUESTIONS PRESENTED IN THE PETITION URGENTLY REQUIRE A NATIONWIDE RULE	10
CONCLUSION	12
APPENDIX	
Disenos Artisticos, Etc. v. Costco Wholesale Corp., C.D. Cal. No. CV 93-7061 RAP (appeal pending), Judgment, Jan 15, 1995	A-1
Disenos Artisticos, Etc. v. Costco Wholesale Corp., C.D. Cal. No. CV 93-7061 RAP (appeal pending), Excerpts from the Court's Findings of Fact and Conclusions of Law, Dec. 14, 1994	A-3
Swarovski America Ltd. v. Costco Wholesale Corp., Swarovski America Ltd. v. Price/Costco Inc. et al., C.D. Cal. Nos. CV 93-6365 SVW, CV 93-7403 SVW, Stipulation, Order and Final Judgment [Excerpts]	A-5
Members of National Association of Chain Drug Stores	A-8

No. 94-1249

In The

Supreme Court of the United States

October Term, 1994

DRUG EMPORIUM, INC.,

Petitioner,

vs.

PARFUMS GIVENCHY, INC.,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

---

BRIEF OF *AMICI CURIAE* COSTCO WHOLESALE CORPORATON, THE PRICE COMPANY, NATIONAL ASSOCIATION OF CHAIN DRUG STORES, INTERNATIONAL MASS RETAIL ASSOCIATION, AND NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS IN SUPPORT OF PETITIONER

Costco Wholesale Corporation ("Costco"), The Price Company ("Price Club"), the National Association of Chain Drug Stores ("NACDS"), the International Mass Retail Association ("IMRA") and the National Association of Catalog Showroom Merchandisers ("NACSM") are submitting this joint brief *amici curiae* in support of petitioner. Consents from petitioner and respondent are being filed separately with the Court.

INTEREST OF *AMICI CURIAE*

1. Costco & Price Club. Costco and Price Club[1] operate "Costco Wholesale" and "Price Club" membership warehouse clubs across the United States and Canada and in certain other countries. Costco and Price Club members represent more than 10 million households in the United States. Price Club's and Costco's annual U.S. sales are approximately $14 billion. With a minimalist cost structure, Price Club and Costco sell brand name goods at extremely low prices. These include imported goods that have copyrighted label designs or features.

In the past 18 months, Costco and Price Club have been sued several times under § 602(a) of the Copyright Act in the same district court in which this case arose.[2] In one of these lawsuits, the plaintiffs selected a forum in the Ninth Circuit over an available venue in the Third Circuit, where they had their principal U.S. offices. *See infra* at A-3 ¶ 2. In two other consolidated lawsuits, Price Club and Costco have stipulated to a judgment that may be vacated *inter alia* if this Court changes Ninth Circuit law regarding § 602(a) and the first sale doctrine. *See infra* at A-6, ¶ 9(a). Each of the lawsuits involves goods first sold by the copyright owner itself (or its affiliate) and imported by persons other than Costco and Price Club. The present case will directly affect the outcome of all of those lawsuits.

2. NACDS, IMRA and NACSM. The NACDS is a national association of retail chain drug stores. It has 134 members that operate 21,186 retail outlets throughout the United States representing over $60 billion in sales. *See infra* at A-8.

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[1] Costco and Price Club are wholly owned subsidiaries of Price/Costco, Inc., whose shares are publicly traded.

[2] *Disenos Artisticos, Etc. v. Costco Wholesale Corp.*, C.D. Cal. No. 93-7061 RAP (Judgment Jan. 13, 1995), *appeal pending*, 9th Cir. Nos. 95-55018 & 95-55106; *Swarovski America Ltd. v. Price/Costco Inc. et al.* and *Swarovski America Ltd. v. Costco Wholesale Corp.*, C.D. Cal. Nos. 93-6365 SVW, 93-7403 SVW (Judgment Dec. 21, 1994); *L'anza Research Int'l, Inc. v. Costco Wholesale Corp. et al.*, C.D. Cal. No. 95-0244 TJH (filed Jan. 12, 1995).

The IMRA represents 170 mass retail chains, including discount department stores, home centers, catalog showrooms, dollar stores, variety stores, warehouse clubs, deep discount drugstores, specialty discounters and off-price stores. Collectively, IMRA retail members operate more than 54,000 stores in the United States and abroad, employ over one million people, and account for the majority of the $245 billion U.S. mass retail industry.

The NACSM is an association of catalog showroom merchandisers, whose members use catalogs showing brand name products as a principal medium of advertising. It represents approximately 2,000 discount retail stores which do approximately $8 billion in annual sales.

All three associations advocate the freedom of their members to purchase and resell genuine brand name products, to make available any such product at low prices, and thereby to compete freely with other forms of retailing. The Ninth Circuit's decision in this case presents a substantial threat to that freedom. If the decision goes unreviewed, retailer members of the NACDS, IMRA and NACSM will face a substantial restriction on their ability to purchase and resell genuine goods, affecting billions of dollars of commerce (and consumer access to the benefits of open competition).

SUMMARY OF ARGUMENT

I. This case concerns an ambiguity in the relationship between two important provisions of the Copyright Act, sections 109(a) and 602(a). Section 602(a) provides that importation of copyrighted material "without authority of the owner of copyright" is an infringement of the copyright owner's distribution rights under § 106(3). 17 U.S.C. § 602(a). Section 109(a), however, states that "notwithstanding the provisions of § 106(3)," a copyright owner may not control the disposition of a particular

copy after he or she first sells it, and that purchasers "without the authority of the copyright owner [may] sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a).

The statutory language does not clearly state how these provisions are to be reconciled. In this case, the Ninth Circuit chose an expansive reading of a copyright owner's right to control imports under § 602(a). It ruled that a copyright owner, having sold ordinary goods (perfume) outside the United States with a copyrighted design on the package, may sue a retailer that purchased these same goods after they had been imported by someone else. The first sale doctrine in § 109(a) was held not to apply.

This result is contrary to past rulings of this Court that statutory monopolies under the patent and copyright laws be "strictly construed." *Sears Roebuck & Co. v. Stiffel Co.,* 376 U.S. 225, 230 (1964) (patent). A court may not "enlarge the scope of respondents' statutory monopolies . . . beyond the limits of the grants authorized by Congress." *Sony Corp. v. Universal City Studios, Inc.,* 464 U.S. 417, 421 (1984) (copyright). Normally, courts must construe an ambiguity, like the one here, in favor of preserving free competition and against enlarging patent or copyright monopolies. *Deepsouth Packing Co. v. Laitram Corp.,* 406 U.S. 518, 530-31 (1972). The Ninth Circuit's failure to follow these principles presents an additional reason for granting the petition.

II. The two questions presented in the petition require a uniform national rule. Because of the effect on commerce, we need "to have national uniformity in patent and copyright laws." *Sears, Roebuck & Co.,* 376 U.S. at 231 n.7. Lack of uniformity between the law in the Ninth and Third Circuits exposes innocent retailers to significant liability, affects merchandise stocking decisions, chills ordinary commercial transactions in goods with some copyrighted feature or label, imposes costs and higher prices on consumers, and limits competition — all without a clear expression from Congress.

ARGUMENT

I. ENLARGING A STATUTORY MONOPOLY TO RESOLVE AN AMBIGUITY IN THE COPYRIGHT ACT IS CONTRARY TO THIS COURT'S PAST DECISIONS

Petitioner correctly notes that a direct conflict exists here between the Ninth and Third Circuits. The Ninth Circuit below held that "sales *abroad* do not constitute a defense to copyright infringement under § 602(a)" and that "the relationship between the copyright holder and the seller abroad is irrelevant." *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 483 (9th Cir. 1994), Pet. App. 12 n.9 (emphasis in text). By contrast, the Third Circuit has ruled that "the place of sale is not the critical factor in determining whether section 602(a) governs" and that "a first sale by the copyright owner extinguishes any right later to control importation of those copies." *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1099 (3d Cir. 1988), Pet. App. 49. Like the present case, *Sebastian* involved a situation in which "the 'first sale' of the products [did] not occur in the United States." Pet. App. 49 n.2.

The petition also correctly describes conflicts in the rationales followed by the two courts of appeal. Pet. 8-12. *Amici* submit that these conflicts reveal an additional reason for granting the petition: the Ninth Circuit's divergence from the Third Circuit enlarges the statutory monopoly in the context of an unclear statutory scheme. The appellate court decided "a federal question in a way that conflicts with applicable decisions of this Court" regarding the scope of statutory monopolies. Rule 10.1(c).

A. Nature of the Statutory Ambiguity.

The texts of §§ 109(a) and 602(a) do not state how these two provisions are to be reconciled. Neither section refers directly to the other.[3] Both the Third and Ninth Circuits agree that there is an ambiguity. *Givenchy,* Pet. App. 7 ("[T]here are at least two plausible interpretations"); *Sebastian,* Pet. App. 45 ("[T]he interrelationship between sections 602(a) and 109(a) may be interpreted in two possible ways").

While the statutory text does not conclusively resolve the issue, it does indicate a path contrary to that taken by the Ninth Circuit. Section 602(a) purports only to describe conduct that "is an infringement of the exclusive right to distribute . . . under section 106." 17 U.S.C. § 602(a). If § 602(a) simply defines a type of infringement of a § 106 right — specifically, the exclusive right to distribute under § 106(3) — it is subject to the first sale doctrine of § 109. Section 106 makes all exclusive rights of a copyright owner "subject to sections 107 through 120," including § 109. 17 U.S.C. § 106. Similarly, § 109(a) expressly applies, "notwithstanding the provisions of section 106(3)." 17 U.S.C. § 109(a).

Nevertheless, the Ninth Circuit has concluded that making § 602(a) subject to § 109(a) would eviscerate the statute. Because most imported goods have already been first sold abroad, "[c]onstruing 109(a) as superseding the prohibition on importation . . . would render Sec. 602 virtually meaningless!" *BMG Music v. Perez,* 952 F.2d 318, 319 (9th Cir. 1991) (citation omitted), *cert. denied,* ____ U.S. ____, 112 S. Ct. 2997 (1992), Pet. App. 32.

By contrast, the Third Circuit has given meaning to both provisions by distinguishing between first sales by licensees and

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[3] Both §§ 109(a) and 602(a) list certain exceptions. Those of § 109 address rental situations, but do not mention § 602(a). 17 U.S.C. § 109(b) & (d). The exceptions in § 602(a) concern importation for governmental and private use and for scholarly, educational or religious purposes, but similarly do not mention § 109. 17 U.S.C. § 602(a)(1)-(3).

those by copyright owners themselves. *Sebastian*, Pet. App. 48 ("We do not confront a license agreement."); Pet. App. 44 ("The hearings revealed the copyright owners' desire to prevent importation . . . of copies made by licensees in foreign countries."). Under the Third Circuit approach, § 602(a) protects copyright owners from *unfair* competition by their licensees. It is not designed to protect them from *all* competition by expanding their copyright monopoly.

Until the present case, decisions in the district courts followed a dichotomy between first sales by licensees and those by the copyright owner. In licensee situations, §602(a) has been applied.[4] When the copyright owner or its affiliate has made the first sale, § 109 has been applied.[5]

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[4] *BMG Music, supra* (first sale in Mexico by licensee); *Columbia Broadcasting Sys., Inc. v. Scorpio*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984) (Philippine licensee); *T.B. Harms Co. v. Jem Records, Inc.*, 655 F. Supp. 1575 (D.N.J. 1987) (New Zealand compulsory licensee); *Hearst Corp. v. Stark*, 639 F. Supp. 970 (N.D. Cal. 1986) (United Kingdom publisher made first sale); *Nintendo of America, Inc. v. Elcon Indus., Inc.*, 564 F. Supp. 937 (E.D. Mich. 1982) (Japanese licensee); *Original Appalachian Artworks, Inc. v. J.F. Reichart, Inc.*, 658 F. Supp. 458 (E.D. Pa. 1987) (foreign licensee "not allowed to export to or distribute the goods in the United States"); *Selchow & Righter v. Goldex Corp.*, 612 F. Supp. 19 (S.D. Fla. 1985) (Canadian author had assigned away its U.S. rights).

[5] *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 9 U.S.P.Q.2d (BNA) 1901 (E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 175 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990); *cf. Cosmair, Inc. v Dynamite Enters., Inc.*, 226 U.S.P.Q (BNA) 344 (S.D. Fla. 1985) (goods both made and sold in United States by copyright owner).

Red Baron involved importation of circuit boards with a copyrighted video game and their subsequent use in a video arcade. On appeal, the Japanese copyright owner:

> conceded that the first sale provisions of section 109(a) of the Copyright Act permitted a U.S. arcade game operator to purchase, *in Japan*, a circuit board containing the [copyrighted] game *and to then import* the circuit board for insertion into a coin-operated arcade game in the United States.

(footnote continues)

B. Past Decisions on Enlarging Statutory Monopolies.

The Ninth Circuit's view of § 602(a) enlarges the statutory monopoly conferred by the Copyright Act. Section 602(a) becomes the only "right" of a copyright owner not "subject to sections 107 through 120," as are all other exclusive rights of a copyright owner. 17 U.S.C. § 106.

This Court's past decisions establish that when the statute is unclear, the patent and copyright laws should not be construed to enlarge the statutory monopoly. In *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), the Court reversed a Ninth Circuit ruling that VCR manufacturers committed contributory copyright infringement by selling home VCRs on which unauthorized copies of copyrighted works were reproduced. As here, the statute was unclear. The claim, thus, amounted to an attempt to "enlarge the scope of respondents' statutory monopolies . . . beyond the limits of the grants authorized by Congress." 464 U.S. at 421.

> In a case like this, in which Congress has not plainly marked our course, we must be circumspect in construing the scope of rights created by legislative enactment which never contemplated such a calculus of interests.

Id. at 431. "The Judiciary's reluctance to expand the protection afforded by [a] copyright without explicit legislative guidance is a recurring theme" in the Court's decisions. *Id.* (citations omitted).

This Court's patent decisions are also relevant. *See Sony,* 464 U.S. at 439 ("[H]istoric kinship [exists] between the patent

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(footnote continued)

H.R. Rep. No. 735, 101st Cong., 2d Sess. 9 (1990), *reprinted in* 1990 U.S.C.C.A.N. at 6940 (emphasis added). The Fourth Circuit, however, ruled that display of the game in a video arcade violated the copyright owner's right of "public performance." *Id.* In response, Congress in 1990 broadened § 109 to correct this "anomaly" of allowing sales (under the first sale doctrine) and then lawsuits "to prevent use of the circuit boards for their intended purpose." 1990 U.S.C.C.A.N. at 6940; *id.* at 6947.

and copyright law."). The Court has consistently ruled that patent rights must be "strictly construed." *Sears Roebuck & Co.,* 376 U.S. at 230. "Thus, the patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition." *Id.* at 230-31; *see United States v. Masonite Corp.,* 316 U.S. 265, 280 (1941) ("Since patents are privileges restrictive of a free economy, the rights Congress has attached to them must be strictly construed.").

In *Deepsouth Packing Co. v. Laitram Corp.,* 406 U.S. 518 (1972), the Court embraced what the respondent had called "too narrow and technical an interpretation of the statute . . . ."406 U.S. at 529. In addition, it invoked "this Nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition" to reject an expansive view of patent rights. *Id.* at 530.

> It follows that we should not expand patent rights . . . on more than mere inference from ambiguous statutory language. We would require a clear and certain signal from Congress before approving the position of a litigant who . . . argues that the beachhead of privilege is wider . . . than courts had previously thought.

Id. at 531. The "sign of how far Congress has chosen to go can come only from Congress." *Id.* at 530.

Here, a claim for an enlarged statutory monopoly is again pitted against free competition principles in the context of an ambiguous statutory scheme. The Ninth Circuit has departed from the path charted by this Court's past decisions. It chose to resolve the unclear relationship between §§109(a) and 602(a) in favor of a broader copyright monopoly. It eschewed the precept that "the heart of our national economic policy long has been faith in the value of competition." *Standard Oil Co. v. Federal Trade Comm'n,* 340 U.S. 231, 248 (1950). These departures from this Court's past decisions, even without a conflict with the Third Circuit, should provide sufficient reason to grant the petition.

II. THE TWO QUESTIONS PRESENTED IN THE PETITION URGENTLY REQUIRE A NATIONWIDE RULE

The Court has recognized "[t]he purpose of Congress to have national uniformity in patent and copyright laws." *Sears Roebuck & Co.,* 376 U.S. at 231 n.7. Here, the lack of uniformity has created considerable uncertainty. In the Third Circuit (but not in the Ninth), retailers may freely purchase and resell goods with a copyrighted feature or label, if the copyright owner has already first sold the goods abroad (and reaped its reward). In the text of § 602(a) (but not in decisions of the Ninth Circuit), only the act of "importation" is proscribed, and those who do not import justifiably might consider themselves safe from liability.

The absence of a nationwide rule on these questions creates several untenable situations for *Amici* and their members. First, retailers are uncertain whether they may continue to purchase from customary sources of supply — especially from trading companies and vendors who purchase excess stocks for resale. If a product is imported and bears some copyrighted label or feature, an investigation into the origin of the product becomes critical under the Ninth Circuit rule. The "good faith purchaser for value" rule is not a defense to copyright infringement. *Pinkham v. Sara Lee Corp.,* 983 F.2d 824, 829 (8th Cir. 1992) (liability for copyright infringement is "absolute"). Even with investigation, the Ninth Circuit rule offers little solace. One may never truly know whether a particular shipment had been imported with the copyright owner's blessing and then sold to a trader as excess inventory — or is in a chain of title with an unauthorized importer. Conceivably, a single shipment could include a mixture of blessed and unblessed imports. There is no duty to include special markings on the goods, so that retailers may distinguish between different import channels.

Second, until there is a uniform rule, retailers will face a greater incidence of litigation (and almost certain defeat) in the Ninth Circuit. It is not for geographic convenience that East

Coast plaintiffs have sued some of the *Amici* in the Central District of California. *See Yee v. City of Escondido,* 503 U.S. 519, 112 S. Ct. 1522, 1534 (1992) (forum shopping is "of particular concern").

Third, merchandise stocking strategies are difficult to formulate without the commercial certainty of a nationwide rule. Ought a drug store chain, a nationwide catalog service, a discount department store or a home shopping network reduce the "shelf space" allocated to imports bearing some indicia of copyright? Should a buying department purchase only from domestic copyright owners and pay (and pass on) the higher prices inherent in having a single source of supply?

Such decisions are not the result of an explicit choice made by Congress in the text of the Copyright Act. They are instead the result of a divergent rule in the Ninth Circuit that has nationwide effects. Consumer choice, price competition, the supply of imported goods with copyrighted labels, and the free movement of such goods are affected by distribution systems that are not coterminous with the geographic lines of the Ninth Circuit.

CONCLUSION

For the above reasons as well as those stated in the petition, the Court should grant the petition.

Respectfully submitted,

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APPENDIX

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

DISENOS ARTISTICOS E INDUSTRIALES, S.A., and LLADRÓ, U.S.A., INC., Plaintiffs, v. COSTCO WHOLESALE CORPORATION, Defendant.	CASE NO. 93-7061 RAP (JGx) JUDGMENT

The Court having entered on December 15, 1994 an order adjudicating the parties' motions for summary judgment on the issues of liability and entitlement to equitable relief, and the Court having entered the parties' subsequent stipulation and order regarding the amount of damages and other monetary relief,

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED:

1. That defendant Costco Wholesale Corporation, its agents, employees, and any persons acting on behalf of or in concert with it, are hereby permanently enjoined from importing, selling, advertising, marketing, trading, or otherwise distributing in the United States any and all copyrighted Lladró figurines, except figurines imported into the United States by Lladró USA or any other person having the copyright owner's authority to import.

2. That Plaintiffs Disenos Artisticos E Industriales, S.A., and Lladró U.S.A., Inc., shall recover from defendant Costco Wholesale Corporation the sum of $310,000 for damages, fees, costs, and other monetary compensation and relief.

Dated: January 12, 1995

/s/ Richard A. Paez

UNITED STATES DISTRICT JUDGE

Disenos Artisticos, Etc. v. Costco Wholesale Corporation, C.D. Cal. No. CV 93-7061-RAP (appeal pending)

Excerpts From the Court's Findings of Fact and Conclusions of Law Dec. 14, 1994

FINDINGS OF UNDISPUTED FACT

1. Plaintiff Disenos Artisticos E Industriales, S.A. ("DAISA") is a Spanish corporation with its principal place of business in Valencia, Spain. Pretrial Order ¶1(a).

2. Plaintiff Lladró U.S.A., Inc. ("Lladró USA") is a New Jersey corporation with its principal place of business at 1 Lladró Drive, Moonachie, New Jersey. Pretrial Order ¶1(b).

* * *

4. DAISA and Lladró USA, through intermediaries, are both wholly owned by Lladró Comercial, S.A., a Spanish corporation. Pretrial Order ¶5(a).

* * *

23. Costco has never imported Lladró figurines into the United States. Pretrial Order ¶5(ah).

24. Costco has obtained all Lladró figurines which it sold from four vendors whose offices are within the United States. All of Costco's transactions with those vendors occurred within the United States. Pretrial Order ¶5(ai).

* * *

CONCLUSIONS OF LAW

* * *

5. Costco's sale in its retail outlets of copyrighted Lladró figurines imported into this country without Plaintiffs' authorization violates Section 602(a). *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, Nos. 92-56359, 93-55050, slip op. at 12949-50 (9th Cir. Oct. 21, 1994) ("*Drug Emporium*").

6. Costco's violation of Section 602(a) is not excused by the "first sale doctrine" set forth at Section 109(a) of the Copyright Act, 17 U.S.C. 109(a). *Drug Emporium*, slip op. at 12947-48; *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 112 S. Ct. 2997 (1992).

7. After careful review, the Court enters summary judgment as a matter of law in favor of Plaintiffs on the issues of liability and equitable relief.

* * *

DATED 12/14/94

/s/ Richard A. Paez

RICHARD A. PAEZ
UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

SWAROVSKI AMERICA LIMITED, Plaintiff, v. COSTCO WHOLESALE CORP., Defendant.	CASE NO. CV 93-6365 SVW (SHx) CASE NO. CV 93-7403 SVW (SHx) (Consolidated)
SWAROVSKI AMERICA LIMITED, Plaintiff, v. PRICE/COSTCO INC. AND THE PRICE COMPANY, Defendants.	STIPULATION, ORDER AND FINAL JUDGMENT

STIPULATION, ORDER AND FINAL JUDGMENT
[EXCERPTS]

Plaintiff Swarovski America Limited and Defendants Costco Wholesale Corp., Price/Costco Inc. and The Price Company (collectively, "Defendants"), hereby stipulate that they have reached a settlement that provides for the entry of this judgment and order ("Order") and its future vacation if there is a change in the law as set forth in paragraph 9 below. The parties, having thus consented to this Order,

IT IS ORDERED AND DECREED:

* * *

3. Defendants are and shall be permanently enjoined from:

a. importing or knowingly causing to be imported into the United States, or ordering or knowingly

causing to be ordered from outside the United States for shipment into the United States, any copyrighted SWAROVSKI SILVER CRYSTAL figurines; and

b. . . . selling or otherwise distributing or knowingly causing to be sold or otherwise distributed in the United States any copyrighted SWAROVSKI SILVER CRYSTAL figurines which were imported into the United States without the authorization of Plaintiff Swarovski America Limited or any successor in interest, in whole or in part, with respect to the copyrights in such figurines or without the direct and express authorization of the owner of copyright.

* * *

8. The Court shall retain jurisdiction to enforce compliance with the terms of this Order or to vacate this Order under Paragraph 9 hereof.

9. a. If the Supreme Court of the United States determines, or if the Court of Appeals for the Ninth Circuit in an action which is not subject to further review determines, or if a subsequent act of Congress provides, (i) that the first sale doctrine applies to goods first sold outside the United States by the copyright owner, its affiliates or others, in actions brought under 17 U.S.C.§602(a) or (ii) that nonimporting retailers cannot be liable under 17 U.S.C.§602(a) or are not so liable if they have not aided, abetted, participated in, had knowledge of or had reason to know of the unauthorized importation, Defendants may move this Court within three months of such a determination to vacate this Order. Plaintiff will not oppose the motion to vacate the Order if Plaintiff determines that either of the circumstances listed above has occurred.

b. Defendants may also move to vacate (i) on grounds of any change in the controlling law of this Circuit with respect to 17 U.S.C.§602(a) if the change would affect the outcome of the actions, or (ii) as permitted under Fed. R. Civ. Proc. 60.

* * *

Dated: December 21, 1994

/s/ Stephen V. Wilson

United States District Judge

MEMBERS OF NATIONAL ASSOCIATION OF CHAIN DRUG STORES

Albertson's, Inc.
American Drug Stores, Inc.
Andorra Pharmacy Inc.
Arbor Drugs, Inc.
Ark Drugs
The Arrow Corporation/ Arrow Prescription Centers
Arthur Drug Stores Inc.
The Bartell Drug Company
Big B, Inc.
Big Bear Stores
Buffalo Pharmacies
CRX Pharmacy
CVS
Carle RX Express
Carrs Quality Centers
City Drug Stores Inc.
City Drugs
Clover Stores
Concord Drugs, Inc.
Corner Drug Stores
D & W Pharmacies, Inc.
Davidson Drugs, Inc.
Discount Drug Mart, Inc.
Downeast Pharmacy, Inc.
Drug Barn Inc.
Drug Emporium, Inc.
Drug Fair Stores of NJ
Drug World Pharmacies
Drugtown Drugstores
Duane Roade
Eckerd Corporation
Emm-Dee Drug Corporation
F & M Distributors, Inc.
Fay's Incorporated
Fedco Professional Pharmacies
Fedco, Inc.
Fred's Inc.
Freedom Drug Inc.
Fruth Pharmacy
Genovese Drug Stores, Inc.
Giant Eagle, Inc.
Giant Food Inc., Pharmacy Div. Giant Discount Drug
Grand Union Company
Gresham Drugs, Inc.
H-E-B Foods/Drugs Inc.
Haggen, Inc.
Happy Harry's Discount Drugs
Harco Drug Inc.
Harmon Discount Stores
Hartig Drug Stores
Health Care Professionals
Hi-School Pharmacy Inc.
Horton and Converse Pharmacies
Hyde Drug, Inc.
I got it at Gary's
Joel N' Jerry's
Judd Drugs, Inc.
K&B Services, Incorporated
Keltsch Bros. Inc.
Kerr Drug Stores, Inc.
Keystone - Medicine Chest Pharmacies
Kinney Drugs, Inc.
Kmart Corporation
Knight Drugs Inc.
Kopp Drug Inc.
Kurtz Pharmacy, Inc.
Lewis Drugs, Inc.
Longs Drug Stores

Marc Glassman Inc.
Marsh Drug Stores, Inc.
Maxi Drug, Inc.
May's Drug Stores, Inc.
McKay Drugs
Med-X Corporation
Medic Discount Drug
Medical Center Pharmacy
Medicap Pharmacies, Inc.
Medicine Shoppe International, Inc.
Medisave Pharmacies
Meijer, Inc.
Monahan Pharmacy Inc.
Navarro Discount Pharmacies
NeighborCare Pharmacies
Nelson's Drug Stores
Northtowne Pharmacy, Inc.
Osborn Drugs, Inc.
Super Save Drugs/Owl Pharmacies, Inc.
Parkway Drugs
Pathmark Stores, Inc.
Pelton's Drug Stores
Perry Drug Stores, Inc.
Phar-Mor, Inc.
Pharmhouse, Corp.
Pic 'N Save Drug Co., Inc.
The Price Company
Price-Less Drug Stores, Inc.
Quick Chek Food & Pharmacy
Reasner Drugs, Inc.
Retired Persons Services, Inc.
Revco D.S., Inc.
Rite Aid Corporation
Ritzman Pharmacies, Inc.
Rock Bottom Stores, Inc.
The Rx Place
Rx Plus
RxD Pharmacies, Inc.
Safeway, Inc.
Sav-On Drugs, Inc.
Save Mart Supermarkets
Seaway Food Town, Inc.
Service Discount Food & Drugs Inc.
Shelly's Pharmacy #1, Inc.
Shop 'N Save Food and Drug Superstores
Shopko Stores, Inc.
Smith's Food and Drug Centers
Smitty's Super Valu, Inc.
Snyder Drug Stores, Inc.
Super D Drugs Inc.
SUPERVALU Pharmacies, Inc.
Target Stores, A Div. of Dayton-Hudson Corp.
Taylor Drug Stores, Inc.
Thrift Drug, Inc.
Thriftway Drugs
Thrifty PayLess, Inc.
Thrifty Drug Stores, Inc. dba Thrifty White Drug, Inc.
Thrifty Drugs of Hawaii
Valco Drug Stores
The Vons Companies, Inc.
Wakefern Food Corp./ ShopRite
Wal-Mart Stores, Inc.
Walgreen Co.
Weatherwax Drug Stores
White Shield, Inc.
L. F. Widmann, Inc.